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No. 02-

IN THE

Supreme Court of the United States

XU LIU and XIAOMEI YANG,

Petitioners,

v.

PRICE WATERHOUSE LLP and
COMPUTER LANGUAGE RESEARCH, INC.,

Respondents.

On Petition for Writ of Certiorari
to the United States Court of Appeals for the Seventh Circuit

PETITION FOR WRIT OF CERTIORARI

DEAN A. MONCO
F. WILLIAM MCLAUGHLIN
RICHARD S. PHILLIPS
WOOD, PHILLIPS, KATZ,
CLARK & MORTIMER
500 West Madison Street
Chicago, Illinois 60661
(312) 876-1800

ERIK S. JAFFE
Counsel of Record
ERIK S. JAFFE, P.C.
5101 34th Street, N.W.
Washington, D.C. 20008
(202) 237-8165

Counsel for Petitioners

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QUESTIONS PRESENTED

The Copyright Act of 1976, as amended, provides that the copyright in a "derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work" and is "independent of * * * any copyright protection in the preexisting material." 17 U.S.C. § 103(b). The Act also provides that "[c]opyright in a work protected under this title vests initially in the author or authors of the work," and that a "transfer of copyright ownership" must be memorialized "in writing and signed by the owner of the rights conveyed." *Id.* §§ 201(a), 204(a). The Act finally provides that "[o]wnership of a copyright * * * is distinct from ownership of any material object in which the work is embodied" *Id.* § 202. The questions presented by this case are:

(1) Whether the copyright in a lawfully created derivative work can initially vest in the owner of the preexisting work rather than the statutory author of the derivative work absent a signed writing memorializing a transfer of ownership?

(2) Where an author has authority to create a derivative work, whether it is a separate infringing "use" of the preexisting material for the author of the derivative work to register the copyright for that work in the author's name?

(3) Whether an ambiguous unsigned writing referring to ownership of computer "code" embodying a work may be interpreted to trump the statutory ownership of the copyright for such work?

PARTIES TO THE PROCEEDINGS BELOW

Appellants in the court of appeals were petitioners Xu Liu and Xiaomei Yang. Liu was the plaintiff and counterclaim defendant in the district court and Yang was a third-part defendant and third-party counterclaimant.

Appellees in the court of appeals were respondents Price Waterhouse LLP and Computer Language Research, Inc. Respondents were also the defendants, counterclaimants, third-party plaintiffs, and third-party counterclaim defendants in the district court.

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PETITION FOR WRIT OF CERTIORARI

Petitioners respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Seventh Circuit.

OPINIONS BELOW

The district court's memorandum opinion and order denying respondents' motion for summary judgment regarding copyright ownership is unpublished but may be found at 1999 WL 47025 and is reproduced herein as Appendix B (pages B1-B9). The district court's order entering judgment on the jury verdict for respondents is unpublished and is reproduced herein as Appendix C (pages C1-C16). The district court's opinion denying petitioners' post-trial motions is published at 182 F. Supp.2d 666, and is reproduced herein as Appendix D

(pages D1-D21). The Seventh Circuit's opinion affirming the district court's decision is published at 302 F.3d 749, and is reproduced herein as Appendix A (pages A1-A13). The Seventh Circuit's order denying rehearing and rehearing *en banc* is unpublished, and is reproduced herein as Appendix E (page E1).

JURISDICTION

The Seventh Circuit issued its opinion on September 10, 2002, and denied rehearing and rehearing *en banc* on October 17, 2002. On December 30, 2002, Justice Stevens extended the time to file this petition to and including February 14, 2003. This Court has jurisdiction to hear this petition pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

This copyright case involves Sections 101, 103, 201, 202, and 204 of the Copyright Act of 1976 (as amended), 17 U.S.C. § 101 *et. seq.*

Section 101 provides, in relevant part:

> A "transfer of copyright ownership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

Section 103(b) provides:

> The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.

Section 201 provides, in relevant part:

(a) Initial Ownership.--Copyright in a work protected under this title vests initially in the author or authors of the work. The authors of a joint work are coowners of copyright in the work.

(b) Works Made for Hire.--In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.

* * *

(d) Transfer of Ownership.--

(1) The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.

* * *

Section 202 provides, in relevant part:

Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied.

Section 204(a) provides:

A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.

The above statutory provisions are reproduced at greater length in Appendix F (pages F1-F10).

STATEMENT OF THE CASE[1]

This case involves questions of copyright ownership in the speed-enhancing modifications to a computer program. The modified program is known as China RevUp32 and constitutes a "derivative work," which is "a work based upon one or more preexisting works" 17 U.S.C. § 101. The China RevUp32 program is derivative of an underlying tax-related computer program owned by respondent Price Waterhouse called RevUp32. The overall dispute presented in this petition involves whether the copyright in the improvements contained in the derivative work is initially owned by the authors of that work or the copyright owners of the underlying work.

Petitioner Xiaomei Yang is a computer programmer and former employee of respondent Price Waterhouse. In early 1995, shortly after she had been laid-of by respondent, Yang proposed to Price Waterhouse that she be engaged to find programmers in China to improve the speed of the underlying RevUp32 program. After several months of negotiations, respondent Price Waterhouse engaged Yang to seek out programmers in China to prepare a faster version of that program. The authorization for the creation of such a derivative work was reflected in, among other things, a June 7, 1995 letter from Price Waterhouse to Yang. App. G1-G2. That letter stated that Price Waterhouse would pay a fee based upon the percentage improvement in speed "[u]pon successful completion of acceptance testing and verification of the speed increase." The letter further stated that:

> The Tax Technology Group will supply the source code for RevUp and Runtime. It is clearly understood that the source code is the sole property of Price Waterhouse and Price Waterhouse gives no authority, implied

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[1] Unless otherwise noted, the facts are taken from the Seventh Circuit and district court opinions, attached as Appendices A, B, and D.

> or otherwise, to distribute or copy this source code in any way. Upon completion of the project, ALL source code will be given back to Price Waterhouse.
>
> If this project is successful, Price Waterhouse will consider the same consultants as strong candidates for future development projects.

App. G2.

Through contacts with her former husband, petitioner Yang thereafter located programmers from the Sky Company in China to do the programming. It was undisputed at trial that the Sky Company programmers were independent contractors and that neither they nor any authorized representative for them signed the June 7, 1995 letter.

The Sky Company programmers thereafter created the derivative China RevUp32 program and, in October 1995, forwarded it to Price Waterhouse for testing. The program had a 264% increase in operating speed.

In December 1995, Price Waterhouse sent Yang a draft agreement seeking an assignment of copyrights in the China RevUp32 program. Prior to this document, which the Sky programmers refused to sign, there was never any mention of copyrights in any other document related to this case. Also in December 1995, and without notice to Yang or the Sky programmers, Price Waterhouse ostensibly sold all right, title and interest in the China RevUp32 program to respondent Computer Language Research.

In February 1996, and on the recommendation of Yang's former husband, the Sky programmers assigned the copyright in the derivative China RevUp32 program to Liu, Yang's daughter, to have her represent them as their fiduciary agent in the United States.

In March 1996, Liu registered the copyright in the China RevUp32 program with the United States Copyright Office.

In April 1997, Liu sued the respondents for copyright infringement regarding the China RevUp32 program. Respondents filed a counterclaim against Liu for copyright infringement, alleging that Liu infringed their copyright in the China RevUp32 program and in the underlying program by filing a copyright registration for the derivative program. Price Waterhouse and CLR also filed a third-party complaint against Yang, alleging, *inter alia*, contributory copyright infringement and breach of fiduciary duty.

In January 1999 the district court denied various motions to dismiss and for summary judgment on the issue of copyright ownership. The court denied summary judgment to respondents on the alleged invalidity of Liu's (and hence the Sky programmers') copyright in the derivative program and denied the various other motions based upon the existence of fact issues for the jury. App. B9.

On November 22, 2000, the court entered judgment on a jury verdict against petitioners on the various copyright claims. App. C1-C2. The verdict was mixed as to the other third-party claims and counterclaims. *Id.* The jury also determined, through special interrogatories, that: The Sky programmers were the sole and exclusive authors of the China RevUp32 program; Yang was not a joint author of the program; and Yang was an employee of Price Waterhouse while she was in China in 1995. App. C15.

On February 28, 2001, the district court denied petitioners' post-trial motions for judgment as a matter of law or for a new trial on a variety of issues, including the issues relating to copyright ownership relevant to this petition. App. D2.

The court held that although the program was *not* a work for hire, App. D13 n. 3 – and hence Price Waterhouse was *not* the statutory author – initial ownership of the copyright in the derivative work nonetheless vested in Price Waterhouse based on "'the parties' intent." App. D14. Such intent was purportedly found in the June 7, 1995 letter, notwithstanding the

court's acknowledgement that: (1) the letter was ambiguous; (2) the Sky Company authors "did not sign the letter agreement"; and (3) the agreement would not satisfy the requirements of 17 U.S.C. § 204(a) regarding transfers of copyright ownership. App. D13-14. Rather, the court offered the startling conclusion that the "contractual agreement as found by the jury trumps the Copyright Act's presumptive vesting of copyright protection with the author of the derivative work." App. D12.

Petitioners appealed to the Seventh Circuit, arguing that, as a matter of law, respondents could not own the copyrights in the China RevUp32 program because the authors of that work did not sign a written document transferring copyright ownership to Price Waterhouse. *See* 17 U.S.C. § 204(a) ("transfer of copyright ownership, other than by operation of law, is not valid unless" memorialized "in writing and signed by the owner of the rights conveyed").

The Seventh Circuit affirmed.

According to the court of appeals, the "June 7, 1995 letter agreement authorized Yang to recruit the Sky Company programmers to use its original work to prepare a derivative work." App. A8. Looking to the "intent of the parties" to interpret the "ambiguous" language of the letter and viewing that "language in a light most favorable to" respondents, the court concluded that "the license agreement provided that Price Waterhouse, not the Sky Company programmers, would obtain copyright ownership of the China RevUp32 program." *Id.* The court further held that "obtaining copyright protection in the derivative work was beyond the scope of the permissible uses authorized by the June 7, 1995 letter agreement." *Id.*

Based on these two premises, the court dismissed the statutory requirement of a signed writing by holding that "because the Sky Company programmers *never had any ownership interest* in the copyrights in the derivative China

RevUp32 program, 17 U.S.C. § 204(a) is inapplicable." App. A9 (emphasis added). Quoting the district court, the Seventh Circuit contended that derivative authors are merely the "presumptive owners of copyright rights in their contribution," that parties may "adjust those rights by contract," and that the parties here "did just that" notwithstanding the "ambiguity in the letter agreement" and "even though those subsequent authors, the Sky Company Programmers, did not sign the letter agreement." *Id.*

Petitioners sought rehearing and rehearing *en banc*, both of which were denied. App. E1.

This petition for certiorari followed.

REASONS FOR GRANTING THE WRIT

Certiorari should be granted because the decision below flagrantly contradicts the plain language of the Copyright Act and the holdings of this Court, vitiating Congress' express protections for "authors" of copyrightable derivative works. The decision also conflicts with the principles enunciated by other courts of appeals on the issues of initial ownership by authors and the nature of copyright creation and registration for derivative works. If allowed to stand, the decision below will have a sweeping and destructive nationwide impact on copyright protection for authors not only of computer programs, but also of derivative works such as motion pictures, television shows, magazines, internet content, music recordings, and graphic art.[2]

The wide distribution of copyrighted works will allow non-author claimants from around the country to bring their actions in the Seventh Circuit, thus amplifying the harm

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[2] A "derivative work" is a "work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted." 17 U.S.C. § 101.

caused by this decision regardless of how other circuits might resolve the issue. And the decision also will interfere with the Copyright Office's administration of the copyright registration and certification system, rendering increasingly uncertain both the ownership and the use of copyrighted materials and conflicting with the Copyright Office's certification standards. By thus interfering with both private parties nationwide and the Copyright Office in connection with its administration of the Act, the decision below will create far greater damage than might normally be inflicted by an erroneous ruling in a single circuit.

I. THE SEVENTH CIRCUIT'S DECISION CONFLICTS WITH THE PLAIN LANGUAGE OF THE COPYRIGHT ACT OF 1976, THE DECISIONS OF THIS COURT, AND THE INTERPRETATIONS OF THE COPYRIGHT OFFICE.

This case warrants review because the Seventh Circuit's decision ignores the most basic requirements of the Copyright Act regarding authorship, ownership, and the nature of derivative works. In doing so the decision thwarts Congress' express intent to protect the copyright ownership of authors.

While acknowledging that the Sky Company programmers were authorized to *create* the derivative China RevUp32 program, and were the lawful "authors" of that program, the Seventh Circuit nonetheless concluded that those authors "*never* had any ownership interest in the copyrights in the derivative China RevUp32 program," and thus § 204(a)'s signed-writing requirement for the *transfer* of ownership "is inapplicable." App. A9 (emphasis added). The flaws in the Seventh Circuit's reasoning are legion.

A. Copyright Ownership Initially Vests in the Author of Any Given Work and Shifts to Non-Authors Only by Transfer.

The plain language of the Copyright Act expressly addresses the question of the initial ownership of copyright rights and provides, in relevant part:

> Copyright in a work protected under this title vests initially in the author or authors of the work.

17 U.S.C. § 201(a).

It is undisputed that the Sky Company programmers are the statutory "authors" of the China RevUp32 program, as the jury expressly found. App. C15. It also is undisputed that the program was *not* a work for hire, App. D13 n. 3, and thus Price Waterhouse cannot claim to be the "author" of the work under the work-for-hire provisions of §§ 101 and 201(b). Absent any issue regarding authorship, initial ownership of the copyright is a foregone conclusion: such ownership vests in the Sky Company programmers as the authors of the work.[3]

In light of the express, unambiguous, and unqualified statutory answer to the question of who initially owns the copyright in a work, the Seventh Circuit's holding that the statutory authors "*never* had any ownership interest in the copyrights" is plain error. Regardless whether the June 7 letter between Price Waterhouse and its own agent Yang might erroneously be thought to create an agreement with the independent programmers "that Price Waterhouse, not the Sky Company programmers, would obtain copyright ownership of the China RevUp32 program," App. A8, that simply has nothing to do with *initial* copyright ownership. At best the Seventh Circuit's imagined agreement might be construed as an agreement to *transfer* ownership to Price Waterhouse. But it could not possibly alter the unqualified statutory vesting of initial copyright ownership in the undisputed "authors" of the work. *See* 17 U.S.C. §§ 201(a).

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[3] That result may in fact be constitutionally mandated given that the Copyright Clause only empowers Congress "To promote the Progress of Science" by securing to "Authors" the "exclusive Right to their respective Writings." UNITED STATES CONSTITUTION, Art. I, sec. 8, cl. 8. Any copyrights thus must be secured at least initially to "Authors," though once so secured they later may be transferred by such authors.

And while such copyright ownership, of course, may be "transferred" the June 7 letter does not even remotely satisfy the statutory requirements for a transfer of ownership. The Copyright Act requires that such transfers, if not by operation of law, must be memorialized by a written instrument signed by the party transferring the exclusive copyright rights. *See* 17 U.S.C. § 204(a) ("A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is *in writing and signed by the owner of the rights conveyed* or such owner's duly authorized agent.") (emphasis added).[4]

The primacy of authorship as the touchstone of ownership has been acknowledged by virtually every authoritative source other than the Seventh Circuit. This Court, for example, recognized in *Community for Creative Non-Violence* v. *Reid*, that the "Copyright Act of 1976 provides that copyright ownership 'vests initially in the author or authors of the work.' 17 U.S.C. § 201(a). As a general rule, the author is the party who actually creates the work * * *." 490 U.S. 730, 737 (1989) ("*CCNV*") (footnote omitted). While the Seventh Circuit's departure from the statutory language on copyright ownership is troubling under any circumstances, it is a particularly unacceptable under the 1976 Act. As this Court admonished in *CCNV*, "[s]trict adherence to the language and structure of the Act is particularly appropriate where, as here, a statute is the result of a series of carefully crafted compromises." 490 U.S. at 748 n. 14 (citations omitted).

The leading and oft-quoted treatise in the field likewise grasps the plain meaning of the statute and characterizes the initial vesting of ownership in authors as "unqualifiedly true"

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[4] While transfers that result by operation of law need not be evidenced by a signed writing, there is no contention that this case presents such a transfer. Rather, the contention is that the programmers allegedly relinquished their ownership rights to Price Waterhouse. Such a transfer of rights from the authors to another must be evidenced by a signed writing.

for works created from 1978 onward. 1 Melville Nimmer & David Nimmer, NIMMER ON COPYRIGHT § 5.01[A], at 5-4.1 (2002) ("NIMMER"). The treatise goes on to explain that

> authorship is a *sine qua non* for any claim of copyright * * *. That is, the person claiming copyright must either himself be the author, or he must have succeeded to the rights of the author.

Id. Authorship or a transfer of rights from the author are the only valid means of copyright ownership. The Seventh Circuit's third path of changing the initial ownership without changing authorship is simply invented from whole cloth.

Finally, the United States Copyright Office also recognizes that ownership must start with the author. While the Copyright Office differs from the Patent Office in that it does not issue copyrights, it does have the statutory responsibility to administer a system of copyright registration and certification. *See* 17 U.S.C. § 409 ("application for copyright registration shall be made on a form prescribed by the Register of Copyrights"). Among the information that Congress required in the application for such registration is information regarding authorship and ownership. *Id.* (application "shall include– * * * (5) if the copyright claimant is not the author, a brief statement of how the claimant obtained ownership of the copyright; * * * and (11) any other information regarded by the Register of Copyrights as bearing upon the preparation or identification of the work or the existence, ownership, or duration of the copyright").[5]

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[5] The specific requirements of § 409 were "intended to give the Register of Copyrights authority to elicit all of the information needed to examine the application and to make a meaningful record of registration," and Clause 5 of that section reflects the "increased importance of the interrelationship between registration of copyright claims and recordation of transfers of ownership." H.R. REP. 94-1476, 1976 U.S.C.C.A.N. 5659, 5771-72 (Sept. 3, 1976).

In furtherance of its responsibility to record the ownership of copyrights and to determine whether "the material deposited constitutes copyrightable subject matter and that the other legal and formal requirements of [Title 17] have been met," 17 U.S.C. § 410(a), the Copyright Office has issued guidance regarding who owns, and hence may register, a copyright:

> Only those deriving their rights through the author can own copyright in the work. The author may transfer all or part of the copyright to someone else. Copyright protection exists from the time the work is created and fixed in some tangible form. The copyright immediately becomes the property of the author upon fixation.

Copyright Office, CIRCULAR 12, Recordation of Transfers and other Documents 2 (June 2002) (available at www.copyright.gov/circs/circ12.pdf); *see also* 37 C.F.R. § 202.3(a)(3) ("For the purposes of this section, a copyright claimant is either: (i) The author of a work; (ii) A person or organization that has obtained ownership of all rights under the copyright initially belonging to the author.") (footnote omitted). Consistent with its recognition that copyright ownership can only arise from authorship or transfer, the Copyright Office has issued specific guidance on a non-author's need for a transfer statement. *See* COMPENDIUM OF COPYRIGHT OFFICE PRACTICES § 623.02, at 600-118 to -119 (1984 & Supp. Feb. 1988) (COMPENDIUM II) ("Where a claimant (or co-claimant) is not an author" and the application is signed by a non-author, "the application must contain a transfer statement").[6]

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[6] Any implication by the court of appeals that Price Waterhouse was merely *reserving* an existing right of ownership in the copyrights for derivative works, App. A8-A9, misconceives the nature of copyrights. Just as a copyright holder has the exclusive right to create copies of a work but does not initially own the copies so created unless he makes them himself, so it is with the new copyright in a derivative work. If the owner of the underlying rights directly creates a derivative work, he would then own the copyright to that further work. But if he licenses the underlying crea-

Indeed, the Copyright Office has addressed its guidance to the precise situation where the owner of a preexisting work seeks copyright in a derivative work prepared by another and has concluded that such a claim requires a transfer statement. *Id.* § 623.02(e), at 600-122 to -123 ("A transfer statement is required where the claimant is not the author of * * * new material in a derivative work. Therefore, where the author of the preexisting material and the author of the new material are different persons, and the author of the preexisting material is the claimant of the new work, the application should indicate how he or she obtained ownership of copyright in the new material."). Such guidance plainly applies to this case and conflicts with the holding of the Seventh Circuit that no transfer was involved in shifting ownership of the derivative China RevUp32 copyright from the authors to Price Waterhouse.

Even assuming, *arguendo*, that an author's initial copyright ownership were merely presumptive rather than definitive, the agreement the Seventh Circuit imagines as "adjust[ing]" such presumptive ownership nonetheless constitutes a "transfer" of the exclusive rights governed by the Copyright Act, and thus is subject to the signed-writing requirement of § 204(a). The Copyright Act defines a "'transfer of copyright ownership' as an *assignment*, mortgage, exclusive license, *or any other conveyance, alienation, or hypothecation of a copyright* or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license." 17 U.S.C. § 101.

That definition is more than broad enough to include the alleged anticipatory agreement to assign a future copyright to someone other than its presumptive owner. The purported

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tive right to a third party, the copyright resulting from such further creation is the initial property of the third-party derivative author. The Seventh Circuit's contrary reasoning confuses the *result* of exercising a right with the right itself.

agreement relied upon by the Seventh Circuit can be seen only as the transfer of an expectancy in the ownership of a future copyright or as a *promise* to transfer ownership of a future copyright. Either way, § 204(a) governs the purported exchange. Indeed, this case stands as an archetypical example of the need for the signed writing requirement. Under the Seventh Circuit's conception, the Sky Company programmers have forfeited their authorship rights as a result of a purported agreement between Price Waterhouse *and its own agent* Yang, without the programmers ever having seen, much less agreed to, the June 7 letter prior to creating their derivative work.[7] The utter absurdity of that result makes a wreckage of the Copyright Act's policy of protecting "authors."

B. Registering Copyright Ownership in an Authorized Derivative Work Is Not an Unauthorized "Use" of the Underlying Work.

In addition to abandoning the provisions of the Copyright Act concerning authorship, ownership, and transfers, the decision below adopts a statute-defying conception of unauthorized "use" of an underlying work and completely disregards the Copyright Act's distinction between the creation and registration of copyrights.

There is no dispute in this case that the Sky Company programmers were fully authorized to use the underlying RevUp32 program to *create* the derivative China RevUp32 program. The Seventh Circuit, however, imagined that, separate from the creation of the derivative work, "obtaining copyright protection in the derivative work was beyond the scope of the permissible uses authorized by the June 7, 1995 letter agreement." App. A8. Once again, the statute, this

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[7] Yang was not an agent for the Sky Company programmers, as the district court itself recognized, App. D13 n. 3, and thus Yang could not have authorized any abdication of the programmers' copyright rights. 17 U.S.C. § 204(a) (writing signed by copyright owner or authorized agent).

Court, and the Copyright Office all contradict the Seventh Circuit's reasoning.

First, merely "obtaining" copyright protection for a derivative work does not involve any "use" at all, much less a use that is distinct from creating the derivative work itself. Section 106 defines the various acts a copyright owner has the "exclusive rights to do or to authorize," including "to reproduce" the work, "to prepare derivative works," "to distribute copies" of the work, "to perform the copyrighted work publicly," and "to display the copyrighted work publicly." 17 U.S.C. § 106; *see also Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 433 (1984) (an infringer is "anyone who trespasses into [the copyright owner's] exclusive domain by using or authorizing the use of the copyrighted work *in one of the five ways set forth in the statute*") (emphasis added). Notably absent from the definition of such "uses" is the creation of a copyright in a derivative work lawfully "prepare[d]." The absence in the statute of the distinction created by the Seventh Circuit is not surprising given such protection does not involve any act other than the creation of that derivative work. *See* 17 U.S.C. § 101 ("work is 'created' when it is fixed in a copy or phonorecord for the first time"); § 102(a) ("Copyright protection subsists * * * in original works of authorship fixed in any tangible medium of expression").

The Copyright Office corroborates the automatic nature of protection, explaining that "[c]opyright protection exists from the time the work is created and fixed in some tangible form. The copyright immediately becomes the property of the author upon fixation." Copyright Office, CIRCULAR 12, at 2. Such protection is inseparable from the act of authorship, and is "obtain[ed]" as a matter of law from that act alone. *See* 2 NIMMER § 7.16[A][1] at 7-147 (2002) ("Copyright automatically inheres in a work the moment it is 'created,' which is to say 'when it is fixed in a copy or phonorecord for the first time.'"). Because copyright protection necessarily co-

existed with the act of authorship of the derivative program, it needed no separate authorization from Price Waterhouse.

Second, if the Seventh Circuit instead meant to find, as respondents had argued, that *registering* a copyright, rather than simply obtaining copyright "protection," constituted a separate use, its reasoning would conflict with still more provisions of the Act. Registering a derivative copyright still would not be a "use" of the underlying work because the copyright for a derivative work *does not impact* the underlying work at all. The Copyright Act makes it abundantly plain, that the "copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material." 17 U.S.C. § 103(b).[8]

As this Court has recognized, the "aspects of a derivative work added by the derivative author are that author's property." *Stewart* v. *Abend*, 495 U.S. 207, 223 (1990). That distinct property right is independent from rights of the copyright owner of the preexisting material and registration of the derivative copyright impacts only the derivative author's own property, not the copyrights in the underlying material. *Cf. id.* at 232 (discussing the used-with-consent requirement for copyrighting derivative works under § 7 of the 1909 Act: "a derivative work author may not employ a copyrighted work without the author's permission, although of course he can obtain copyright protection for his own original additions.").

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[8] *See also* H.R. REP. 94-1476, 1976 U.S.C.C.A.N. at 5670 ("The most important point here is one that is commonly misunderstood today: copyright in a 'new version' covers only the material added by the later author, and has no effect one way or the other on the copyright or public domain status of the preexisting material.").

The Copyright Office likewise recognizes the discrete and separate nature of the registration for the derivative copyright and any rights or interests in the underlying copyright. *See, e.g.*, COMPENDIUM II § 108.04, at 100-4 (1984) ("Where part of the Work * * * was covered by a previous registration, the copyright claim as reflected in the application should generally be limited to the new material covered by the claim being registered."); *id.* § 306.01, at 300-6 ("The copyright in a derivative work extends only to the material contributed by the author of such work * * * and does not imply any exclusive right in the preexisting material."). Administering the registration system is precisely within the statutory duties of the Copyright Office and hence that Office's understanding on this point is especially persuasive. Indeed, the Copyright Office even has had occasion to consider registration of computer programs such as the one in this case and has stated that "[r]egistration for a derivative computer program covers only the additions, changes, or other new material appearing in the program for the first time." *Id.* § 323.01, at 300-17.

Once a derivative work is lawfully created, therefore, any later steps required to protect the derivative author's ownership interests involve no assertion of dominion or rights regarding the underlying work, do not affect the copyright of that underlying work, and thus cannot cogently be characterized as separate "uses" of the underlying work without rewriting the Copyright Act.[9]

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[9] Even if registration constituted an infringing "use" of the underlying copyright, it would undoubtedly be a "fair use" given that merely registering existing ownership is expressly authorized by statute. 17 U.S.C. § 408(a) ("At any time during the subsistence of * * * [the copyright], the owner of copyright or of any exclusive right in the work may obtain registration of the copyright * * *. Such a registration is not a condition of copyright protection."). Furthermore, because initial copyright ownership *precedes* registration, even were registration an infringing use of the prior material it could not alter derivative author's already existing ownership of the derivative copyright. And in no circumstance would such supposed infringement mean that *Price Waterhouse* owned the copyright in the de-

Just as this Court in *Stewart* refused to "read into the Copyright Act a limitation on the statutorily created rights of the owner of an underlying work," *Stewart*, 495 U.S. at 216, so too should it refuse to read into the Act novel and non-textual means of repealing the ownership rights of derivative authors.

C. The Seventh Circuit's Interpretation of the June 7, 1995 Letter Conflicts with the Copyright Act's Distinction between a Work and Its Copyright.

In addition to its errors regarding the fundamentals of copyright ownership and transfer, the Seventh Circuit ignored the statute when it came to *interpreting* the June 7 letter to constitute a contractual "adjust[ment]" of copyright ownership. App. A9. While such contract interpretation is normally a matter of state law, it raises a federal question where, as here, it conflicts with the terms or policies of the Copyright Act. As this Court said in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 229 (1964), federal patent and copyright law "like other laws of the United States enacted pursuant to constitutional authority, are the supreme law of the land * * *. When state law touches upon the area of these federal statutes, it is 'familiar doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by the state law." (citations omitted).

The Seventh Circuit's interpretation of the June 7 letter as altering the initial ownership of the copyright in the China RevUp32 program runs afoul of the Copyright Act's express distinction between ownership of the copyright in a work and ownership of particular *manifestations* of the work.

The Price Waterhouse language on which the Seventh Circuit relied provided that Price Waterhouse "will supply the source code for RevUp" and another program, that "the

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rivative work. At best there would be a standoff with neither respondents nor the derivative authors able to make use of the derivative work without the other parties' consent.

source code is the sole property of Price Waterhouse," that the source code may not be copied or distributed, and that, "[u]pon completion of the project, ALL source code will be given back to Price Waterhouse." App. G2. But ownership of the "code" itself does not, as a matter of federal law, establish ownership of the *copyright* to that code. "Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied." 17 U.S.C. § 202.

Indeed, even assuming, *arguendo*, that the June 7 letter even refers to any *new* code, rather than merely the return of all *old* code initially provided by Price Waterhouse, it still would only describe a transfer of the embodiment of the derivative work, not the copyright to that work.[10] As specifically provided by the Copyright Act, the "[t]ransfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, *does not of itself convey any rights in the copyrighted work* embodied in the object * * *." 17 U.S.C. § 202 (emphasis added); *see also* 3 NIMMER § 10.09[A], at 10-76 (sale of original work will not

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[10] The language of the June 7 letter itself suggests that the "code" it refers to is not the newly created derivative code, but rather only the *original* RevUp32 source code provided by Price Waterhouse, which was to be "given back to Price Waterhouse." App. G2. Price Waterhouse could not be given "back" something they had never before possessed, and thus it is difficult to imagine how this language could possibly refer to the newly created and original contributions of code to the derivative product. Furthermore, the letter itself implicitly distinguishes between "code" and the copyright in such code in that it transfers certain source code to the programmers, but plainly does not transfer the copyright to *that* code. In reading the language that the code will be "given back," it is more than passing strange that the Seventh Circuit would construe the parallel word "code" as requiring "back" more – *i.e.*, all separate copyright rights in newly authored derivative code – than was provided in the first place.

transfer copyright or any rights thereunder in the absence of specific written conveyance of rights).[11]

II. THE DECISION BELOW CREATES CIRCUIT SPLITS ON MULTIPLE EMBEDDED ISSUES.

Given the plain error of the Seventh Circuit's holdings that a non-author can have initial ownership of a copyright, that obtaining copyright protection for an authorized work can constitute an infringing use, and that ownership of an embodiment of a work includes ownership of the copyright in that work, it should hardly be a surprise that those elements of the court's decision create conflicts with cases from other circuits.

A. Ownership Vests Only by Authorship or Transfer Memorialized by a Signed Writing.

It is well recognized in circuits other than the Seventh that the statutory author is the initial owner of a copyright, and that all other putative owners must be successors to the initial ownership rights of the author. The Eleventh Circuit, for example, has considered the initial ownership of the copyright in drawings prepared by an independent architectural firm at the request of a builder where there was "an oral agreement * * * that the copyright in the * * * plan would be owned by" the builder. *Arthur Rutenberg Homes, Inc.* v. *Drew Homes, Inc.*, 29 F.3d 1529, 1530 (CA11 1994). But despite the undisputed intent of the parties regarding ownership of the copyright in the work, the court held that the "original owner of the copyright in the * * * drawings was Heise, the author

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[11] Indeed, the 1976 Act specifically reversed the type of presumption applied by the Seventh Circuit in this case. The former common-law rule that "authors or artists are generally presumed to transfer common law literary property rights when they sell their manuscript or work of art * * * would be reversed under the bill [that became the 1976 Act], since a specific written conveyance of rights would be required in order for a sale of any material object to carry with it a transfer of copyright." H.R. REP. 94-1476, 1976 U.S.C.C.A.N. at 5740.

* * * because the Copyright Act of 1976 provides that ownership vests in the author (Heise) as the party who actually creates the work." *Id.* The court then quoted § 204(a)'s requirement of a signed writing for transfer of copyright ownership and held that the builder "could have become the owner of the copyright only if there were such a writing." *Id.* at 1531.

The decision below thus conflicts with *Rutenberg* both on the issue of initial ownership by the author and on the related issue of whether to characterize a prior agreement allocating copyright ownership as a "transfer" of ownership subject to the requirements of § 204(a).

Other circuit courts similarly adhere to the statutory dictate that initial ownership vest in the author and that all others take only through transfer from the author. *See Aymes* v. *Bonelli* 980 F.2d 857, 864 (CA2 1992) (computer program created by "an independent contractor" is "not a work for hire [and programmer] therefore owns the copyright as author of the program."); *Effects Associates, Inc.* v. *Cohen,* 908 F.2d 555, 557 (CA9 1990) ("where a non-employee contributes to a book or movie, as Effects did here, the exclusive rights of copyright ownership vest in the creator of the contribution, unless there is a written agreement to the contrary"), *cert. denied* 498 U.S. 1103 (1991); *cf. Epoch Producing Corp.* v. *Killiam Shows, Inc.*, 522 F.2d 737, 743 (CA2 1975) (under similar § 9 of the 1909 Act, "person claiming this initial [28-year copyright] term must either himself be the author of the copyrightable work * * * or he must have succeeded to the rights of the author through an assignment or other device. [citing NIMMER]."), *cert. denied* 424 U.S. 955 (1976).

B. Registering the Copyright in a Derivative Work Is Not a "Use" of the Underlying Work Distinct from Creating that Work.

The Seventh Circuit's holding that obtaining or registering the copyright in a derivative work constitutes a potentially

infringing "use" of the pre-existing work not only conflicts with the Act, this Court's cases, and the leading authority on copyright law, it again is incompatible with the holdings of other courts of appeals.

The Eleventh Circuit, for example, readily recognizes that copyright protection inheres in the act of creation rather than constituting a separate act. *See Montgomery* v. *Noga,* 168 F.3d 1282, 1288 (CA11 1999) ("For original computer programs and other original works of authorship created after 1977, copyright automatically inheres in the work at the moment it is created without regard to whether it is ever registered."); *Arthur Rutenberg Homes,* 29 F.3d at 1531 ("Copyright inheres in authorship and exists whether or not the work is ever registered. The Copyright Act makes clear that registration is a separate issue from the existence of the copyright itself * * *."); *see also Well-Made Toy Mfg. Co.* v. *Goffa Int'l Corp.*, 210 F. Supp.2d 147, 157 (E.D.N.Y. 2002) (Weinstein, S.J.) ("For any work created after January 1, 1978, copyright automatically inheres upon the work's creation.").

Those cases are incompatible with the Seventh Circuit's holding that obtaining copyright protection is an unauthorized use separate from the authorized creation of the derivative work given that "copyright protection attaches at the time of an author's creation." *Donald Frederick Evans & Assocs., Inc.* v. *Continental Homes, Inc.,* 785 F.2d 897, 904 & n. 10 (CA11 1986). The creation of a derivative work and copyright protection of that work are simultaneous occurrences. That the author and copyright owner of the derivative work then completes the mere formality of registering his *existing* property is not a substantive event.

Other courts of appeals also have recognized that the copyright in a derivative work does not have *any* impact on the underlying work, but rather extends only to the new and original elements of the derivative work. *See, e.g., Silverman* v. *CBS Inc.*, 870 F.2d 40, 49 (CA2) ("copyrights in derivative works secure protection only for the incremental additions of

originality contributed by the authors of the derivative works"), *cert. denied*, 492 U.S. 907 (1989); *Durham Industries, Inc.* v. *Tomy Corp.*, 630 F.2d 905, 909 (CA2 1980) ("Thus the only aspects of [a derivative work] entitled to copyright protection are the non-trivial, original features, if any, contributed by the author or creator of those derivative works."; "scope of protection afforded a derivative work * * * must not in any way affect the scope of any copyright protection in that preexisting material"); *Russell* v. *Price*, 612 F.2d 1123, 1128 (CA9 1979) (reaffirming "well-established doctrine that a derivative copyright protects[] only the new material contained in the derivative work, not the matter derived from the underlying work") (footnote omitted), *cert. denied*, 446 U.S. 952 (1980).

Such recognition of the independence of the derivative copyright thus cannot coexist with any claim that subsequent *registration* of the derivative copyright constitutes a separate use of the underlying work. Because registration relates only to the legally independent new material present in the derivative work, not to the preexisting material in that work, it does not "use" such preexisting material.

C. Language Discussing Only Ownership of "Code" Does Not Encompass the Copyright in that Code.

As with the Seventh Circuit's other errors, cases from other circuits likewise contradict the holding below that an agreement as to an embodiment of a copyrighted work governs ownership of the copyright in that work. *See, e.g.*, *Saxon* v. *Blann*, 968 F.2d 676, 680 (CA8 1992) (transfer of "'ownership rights'" to a book "did not transfer the copyright of" the book because "'[o]wnership of a copyright * * * is distinct from ownership of any material object in which the work is embodied,'" and the parties did not "state in writing that they intend to transfer a copyright") (quoting 17 U.S.C. § 202 and citing § 204(a)); *Donald Frederick Evans & Assocs.*, 785 F.2d at 904 & n. 10 (CA11) (no evidence that "the author of the work, Evans, did not retain ownership of the copyright in the

work regardless of who owned the actual drawings"; "Copyright Act expressly distinguishes between ownership in the work copyrighted and ownership in the copyright for a work"); *cf. United States* v. *Smith*, 686 F.2d 234, 240 (CA5 1982) ("a copyright is independent of both its physical manifestation and the very thing that is copyrighted").

Other circuits also recognize that when interpreting supposed contracts relating to exclusive copyrights rights, courts "rely on state law * * * only to the extent such rules do not interfere with federal copyright law or policy." *S.O.S., Inc.* v. *Payday, Inc.*, 886 F.2d 1081, 1088 (CA9 1989); *see also id.* ("The license must be construed in accordance with the purposes underlying federal copyright law."); *cf. Radio Television Espanola, S.A.* v. *New World Entertainment, Ltd.*, 183 F.3d 922, 929 n. 7 (CA9 1999) ("[F]or grants of exclusive licenses, any meeting of the minds must be accompanied by a writing satisfying 17 U.S.C. § 204(a). Section 204(a) cannot be circumvented by parties arguing that the exclusive license was granted in a contract satisfying state common law.").

In this case, the Seventh Circuit interpreted the June 7 letter in a manner incompatible with the Copyright Act and incompatible with the holdings of other circuits that ownership of a particular work does not constitute ownership of the copyright in that work. Regardless of the Seventh Circuit's dubious contract construction in general, therefore, its disregard for the primacy of the Act over state common law regarding the intent of the parties conflicts with holdings of its sister circuits and should be reviewed by this Court.

III. THIS CASE RAISES IMPORTANT NATIONAL ISSUES THAT SHOULD BE RESOLVED BY THIS COURT.

The damage caused by the Seventh Circuit's decision in this case is both significant and widespread. Derivative works constitute a truly enormous amount of copyrightable material, including such things as music, television shows, magazine articles, web-site contributions, computer software,

and video games. *See* 17 U.S.C. § 101 (definition of "derivative work" includes "a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, * * * editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship"); *see also National Broadcasting Co., Inc.* v. *Sonneborn*, 630 F. Supp. 524, 532 (D. Conn. 1985) (television production of "Peter Pan" was derivative work distinct from the theatrical production being taped); *M. Kramer Mfg. Co.* v. *Andrews*, 783 F.2d 421, 428 (CA4 1986) (discussing registration of derivative video poker games).

By rewriting the rules on copyright ownership, use, and transfer, the Seventh Circuit casts a pall of uncertainty over a plethora of past and future transactions involving a wide array of derivative works. That result is fundamentally destructive of Congress' vital goals of improving "predictability and certainty of ownership," avoiding "fraudulent claims" against authors, and improving marketability of copyrights by making ownership rights "clear and definite." *Konigsberg Intern. Inc.* v. *Rice*, 16 F.3d 355, 357 (CA9 1994) (citations and quotation marks omitted). Such consequences flow with particular force from the court's circumvention of § 204(a)'s signed-writing requirement and its substitution of an indeterminate factual analysis of the parties' intent. *See, e.g., Imperial Residential Design, Inc.* v. *Palms Development Group, Inc.*, 70 F.3d 96, 99 (CA11 1995) ("chief purpose" of § 204(a) "is to resolve disputes between copyright owners and transferees and to protect copyright holders from persons mistakenly or fraudulently claiming oral licenses or copyright ownership").[12]

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[12] *See also Playboy Enterprises, Inc.* v. *Dumas*, 53 F.3d 549, 559 (CA2) (in work-for-hire context, purpose of writing requirement to make copyright ownership "clear and definite," and to enhance "predictability"), *cert. denied*, 516 U.S. 1010 (1995); *Effects Associates*, 908 F.2d at 557 ("Section 204 ensures that the creator of a work will not give away his

Under the Seventh Circuit's new approach, authors may lose their copyright without *any* notice whatsoever, based entirely on communications to which they were neither party nor privy. This Court in *CCNV* forcefully rejected a far less bizarre distortion of Congress' fundamental goals, finding that a particular construction of the work-for-hire provisions of the Act "would impede Congress' paramount goal in revising the 1976 Act of enhancing predictability and certainty of copyright ownership." 490 U.S. at 749; *id.* at 750 (difficult-to-predict test would have "clearly thwart[ed] Congress' goal of ensuring predictability through advance planning" and left "'the door open for hiring parties, who have failed to get a full assignment of copyright rights from independent contractors falling outside the subdivision (2) guidelines, to unilaterally obtain work-made-for-hire rights.'") (citation omitted).[13]

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copyright inadvertently" and forces negotiation over "precisely what rights are being transferred and at what price. * * * Most importantly, section 204 enhances predictability and certainty of copyright ownership – 'Congress' paramount goal' when it revised the Act in 1976.") (citation omitted).

[13] And while this case does not itself involve a work for hire, the Seventh Circuit's holding would nonetheless also destroy the protection *CCNV* confirmed for "commissioned" works for hire. Such protection would be lost by allowing a change in copyright ownership for such works based on the "intent" of the parties without establishing a change in authorship and without a signed writing. That would vitiate the express protection provided to commissioned works under § 101. *See* 17 U.S.C. § 101 (nine enumerated types of "specially ordered or commissioned" works become works for hire "*if the parties expressly agree in a written instrument signed by them* that the work shall be considered a work made for hire") (emphasis added). And the decision below completely guts the implied prohibition on changes in initial ownership for all other commissioned works not included in the nine enumerated categories. *See MGB Homes, Inc.* v. *Ameron Homes, Inc.*, 903 F.2d 1486, 1492 (CA11 1990) (appellant "was not the author of the house drawings under the 'work-for-hire' doctrine" because "architectural drafting does not fall within the nine enumerated categories of activities which may be done by independent contractors 'for hire'"); *cf. United States* v. *Lopez*, 514 U.S. 549, 553 (1995) ("'enumeration presupposes something not enumerated'") (citation omit-

Like the work-for-hire rules in *CCNV*, the rules governing initial ownership and transfer of copyrights in derivative works carry the same "profound significance for freelance creators –including artists, writers, photographers, designers, composers, and computer programmers – and for the publishing, advertising, music, and other industries which commission their works." 490 U.S. at 737 (footnote omitted). Indeed, given the variety and value of derivative works such as movies, television shows, computer programs, and musical performances, the potential economic impact of the Seventh Circuit's ruling is tremendous.

The effective geographic scope of this case also is disproportionately large given that the wide distribution of copyrighted materials makes forum-shopping especially easy. Persons seeking to expropriate the copyrights of derivative authors can readily obtain venue in the Seventh Circuit for claims of infringement against the authors of derivative works or their valid transferees. 28 U.S.C. § 1400(a) (suit where defendant may be "found"). Given that virtually any motion picture – or other significant derivative work – can be expected to be distributed in a major city such as Chicago, persons making undocumented claims of ownership will be able to bring suit within the Seventh Circuit and obtain the dubious "benefit" of the rule announced in this case. The predictably wide distribution of copyrighted works thus undercuts the usual geographic limitations on an individual circuit's rulings and thus makes the questions presented herein national issues regardless of whether any other circuits follow the Seventh Circuit's erroneous path.

The special nature and protection of copyrights and the disproportionate impact that can flow from a single appellate decision has often caused this Court to grant certiorari in cas-

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ted). The Seventh Circuit's holding that initial ownership can be adjusted by the bare intent of the parties thus creates a gaping hole in the consciously enumerated limits of the work-for-hire provisions.

cases that are disruptive to the copyright system even absent a direct circuit split on a narrowly conceived issue. *See New York Times Co.* v. *Tasini*, 533 U.S. 483 (2001) (reviewing issues regarding electronic distribution of collective works where petitioners only alleged conflicts in principle); *Campbell* v. *Acuff-Rose Music*, 510 U.S. 569 (1994) (reviewing a "fair use" issue where petitioner only alleged a conflict in principle); *Feist Publications, Inc.* v. *Rural Tel. Serv. Co.*, 499 U.S. 340 (1991) (reviewing originality issues concerning telephone books where only a conflict in principle with the sweat-of-the-brow doctrine). Such early intervention is appropriate given that a single circuit court decision can have national and global, not merely regional, impact on copyrights and create uncertainty stretching both forward and backward in time for numerous copyrights. That exaggerated impact, combined with the palpable error of the decision below, counsels prompt review by this Court.

Finally, the decision below also will significantly interfere with the Copyright Office's administration of the copyright registration and certification system. The Copyright Office will now be forced to reconcile inconsistent standards of copyright ownership when deciding whether to accept a registration claim and issue a certificate. *See infra* at 12-14, 16, 18. That will interfere with a system that not only is important in providing a central source of notice as to copyright ownership – protecting both owners of copyrighted material and those seeking licenses from them – but also impacts any eventual litigation concerning copyright ownership. Successful registration of a copyright "made before or within five years after first publication of the work shall constitute *prima facie* evidence of the validity of the copyright and of the facts stated in the certificate," 17 U.S.C. § 410(c), and allows copyright owners to institute infringement actions.

But if the Register of Copyrights "determines that, in accordance with the provisions of this title, the material deposited does not constitute copyrightable subject matter or that

the claim is invalid for any other reason, the Register shall refuse registration." *Id.* § 410(b). Such a refusal, while not dispositive in a court, does deny a claimant the presumption that flows from registration. It also requires a claimant suing for infringement to serve notice of the action and a copy of the complaint on the Register of Copyrights, who "may, at his or her option, become a party to the action with respect to the issue of registrability of the copyright claim." *Id.* § 411(a). That intervention option reflects the significant interest of the Copyright Office in the registration system, and consequently in anything that might undermine the operation of that system. The decision below would do precisely that, and interfere with both government administration of the copyright system and private reliance on otherwise clear rules regarding copyright ownership and transfer.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

ERIK S. JAFFE
Counsel of record
ERIK S. JAFFE, P.C.
5101 34th Street, N.W.
Washington, D.C. 20008
(202) 237-8165

DEAN A. MONCO
F. WILLIAM MCLAUGHLIN
RICHARD S. PHILLIPS
WOOD, PHILLIPS, KATZ,
CLARK & MORTIMER
500 West Madison Street
Chicago, Illinois 60661
(312) 876-2102

Counsel for Petitioners

Dated: February 14, 2002

APPENDIX A

302 F.3d 749

**United States Court of Appeals,
Seventh Circuit.**

**Xu LIU, Plaintiff-Appellant,
v.
PRICE WATERHOUSE LLP and Computer Language Research, Inc., Defendants/Third-Party Plaintiffs-Appellees,
v.
Xiaomei Yang, Third-Party Defendant-Appellant.**

No. 01-1744, 01-2119.

**Argued Nov. 28, 2001.
Decided Sept. 10, 2002.
Rehearing and Rehearing En Banc Denied Oct. 17, 2002.**

Before WOOD, Jr., KANNE, and ROVNER, Circuit Judges.

KANNE, Circuit Judge.

A jury found against Xiaomei Yang and Xu Liu on various copyright- infringement, breach-of-contract, breach-of-fiduciary-duty, and conversion-of- property claims. Yang and Liu now appeal. First, Yang and Liu argue that the district court erred in denying their renewed motion for judgment as a matter of law or for a new trial and that it erred when it allowed Price Waterhouse and Computer Language Research, Inc.'s ("CLR") economic expert to introduce the results of telephone surveys as fact testimony. Further, Yang and Liu contend that the district court abused its discretion when it granted Price Waterhouse and CLR's motion for remittitur

and when it denied Yang's motion for prejudgment interest and costs. We affirm the judgment of the district court.

I. Background

Price Waterhouse's Tax and Technology Group developed and marketed a tax preparation software package, the Tax Management System ("TMS"). The TMS software was initially a DOS-based program. But in 1994, Price Waterhouse hired Patrick J. McNerthney to develop a Windows ® version (8.0) of the TMS software. McNerthney created a subprogram called RevUp32, which interfaced with the Windows ® TMS program to access files created with the DOS-based program. Price Waterhouse owned the copyrights pertaining to both the TMS software and the RevUp32 program until it sold most of its TMS business assets to CLR in December 1995.

In March 1995, Yang, an employee acting on behalf of Price Waterhouse, attempted to locate computer programmers in China who could increase the speed of the RevUp32 program in return for a fee and a commitment by Price Waterhouse to outsource future projects to China. Yang contacted several Chinese programmers and eventually selected the Sichuan Sky Company Limited (the "Sky Company") to do the work. Shortly thereafter, Yang became concerned that Price Waterhouse and the Sky Company might exclude her from future projects. To alleviate Yang's fears, Stephen Desmond, Price Waterhouse's partner in charge of the Tax Technology Group, prepared a letter dated May 22, 1995, stating that if Yang successfully met the objectives of the "China Project," Price Waterhouse would appoint her to lead future ventures in China.

Yang and Gerard Niles, Price Waterhouse's Chief Development Officer and Senior Vice President of the Tax Technology Group, subsequently worked out the details of the arrangement between Yang and Price Waterhouse and set forth their agreement in a written letter dated June 7, 1995. The letter, signed by Niles, stated in pertinent part:

Price Waterhouse LLP agrees to pay $25,000 (twenty-five thousand dollars) for each 25% increase in TMS speed resulting from work on the RevUp. After the initial 25% improvement is achieved, payment will be made in $1,000 increments for each percentage increase. For example, if the speed is increased by 49%, Price Waterhouse will pay $49,000.00.

* * *

Price Waterhouse will be given 30 days upon receipt of the object code to perform acceptance testing. If Price Waterhouse discovers problems, the consultants agree to resolve any and all issues on a timely basis. When issues are resolved, the consultants will give Price Waterhouse an additional 30 days upon receipt of the revised object code to perform acceptance testing. Upon successful completion of acceptance testing and verification of the speed increases, Price Waterhouse will pay the aforementioned amount.... The Tax Technology Group will supply the source code for the RevUp .... It is clearly understood that the source code is the sole property of Price Waterhouse and Price Waterhouse gives no authority, implied or otherwise, to distribute or copy this source code in any way. Upon completion of the project, ALL source code will be given back to Price Waterhouse.

If this project is successful, Price Waterhouse will consider the same consultants as strong candidates for future development projects.

Price Waterhouse then disclosed to Yang the source code to the RevUp32 program.[1] In turn, Yang disclosed the RevUp32-program source code to the Sky Company programmers. Using the original source code to the RevUp32 pro-

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[1] The source code of a program is its operating instructions in a format that a computer programmer can read and use to maintain and revise a program.

gram, the Sky Company programmers successfully increased the speed of the RevUp32 program by 264%.

Upon completion of this newer, faster RevUp32 program (the "China RevUp32 program"), Yang sent the object code to the "China RevUp32 program" to Price Waterhouse.[2] [FN2] Although Yang was willing to turn over the object code to the China RevUp32 program, she refused to turn over the new source code unless Price Waterhouse guaranteed her future work in China, in addition to paying her the $264,000 she was due under the June 7, 1995 letter agreement. Price Waterhouse, however, refused to make any further guarantees to Yang and refused to pay Yang the $264,000 until the source code for the China RevUp32 program was turned over to Price Waterhouse. Subsequently, the Sky Company programmers asserted an ownership interest in the copyrights pertaining to the China RevUp32 program. They then proceeded to assign their asserted copyrights to Liu, Yang's daughter. Yang then registered the China-RevUp32-program copyrights in Liu's name.

In December 1995, CLR purchased the TMS software business from Price Waterhouse and began selling the TMS software, which incorporated the China RevUp32 program. Price Waterhouse and CLR then contacted Patrick McNerthney, the programmer who had authored the original RevUp32 program, and asked him to attempt to increase the speed of his original RevUp32 program. Because McNerthney was familiar with the original program, he was able to enhance the RevUp32 program for CLR in several weeks. Then, starting in November 1996, CLR substituted McNerthney's faster RevUp32 program for the China RevUp32 program in their TMS software.

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[2] An object code is operating instructions in a format that can be read by a computer, as opposed to the source code, which, as explained above, is read by a computer programmer.

In April 1997, Liu filed a suit for copyright infringement against Price Waterhouse and CLR for allegedly infringing her copyrights in the China RevUp32 program by selling the TMS software, which incorporated the China RevUp32 program. Price Waterhouse and CLR denied infringement and filed a counterclaim against Liu for copyright infringement, alleging that Liu infringed their copyrights in the China RevUp32 program by filing a copyright registration in her name. Price Waterhouse and CLR also filed a third-party complaint against Yang, alleging contributory copyright infringement, breach of fiduciary duty, conversion of property, and trade secret misappropriation.

The above-recited facts were adduced during a ten-day trial. Subsequently, the jury determined that Price Waterhouse and CLR validly owned the copyrights in both the original RevUp32 program and the China RevUp32 program. The jury further found that Liu had infringed these copyrights by asserting an ownership interest in the China RevUp32 program, that Yang had contributed to Liu's infringement, and that Yang breached her fiduciary duty to Price Waterhouse and had converted property. Additionally, Price Waterhouse was found to have breached the June 7, 1995 letter agreement by failing to pay Yang the $246,000 that was due to her. Further, Yang was found to have breached the same agreement by failing to turn over to Price Waterhouse the China-RevUp32-program source code upon completion of the China project.

In their answers to a series of special interrogatories, the jury found specifically that in the June 7, 1995 letter agreement, the parties intended that the copyrights pertaining to the China RevUp32 program would become the property of Price Waterhouse upon completion of the project and that the project was in fact completed. Further, the jury found that Yang was a Price Waterhouse employee while she worked in China and that therefore she was obligated to use her best efforts to protect Price Waterhouse's copyright interests. Additionally,

the jury determined that Yang had not used her best efforts to protect the China RevUp32 program while she was employed at Price Waterhouse.

The jury awarded Price Waterhouse and CLR $200 in damages for Liu's copyright infringement and $200 in damages for Yang's contributory infringement. The jury also awarded Yang damages in the amount of $600,000 for Price Waterhouse's breach of contract. Liu and Yang then moved for judgment as a matter of law or a new trial pursuant to Rules 50(b) and 59, on the grounds that the Sky Company programmers never actually assigned their ownership interests in the China RevUp32 program copyrights to Price Waterhouse and thus, Liu is the true owner of the China RevUp32 program. The district court rejected Liu and Yang's argument and denied their motions. The district court then granted Price Waterhouse and CLR's motion for remittitur, reducing Yang's award from $600,000 to $264,000 on the grounds that the only evidence Yang presented to the jury on her breach-of-contract claim was that Price Waterhouse owed her $264,000 pursuant to the June 7, 1995 letter agreement. Further, the court denied Yang's motion for prejudgment interest on her breach-of-contract claim and her motion for costs.

On appeal, Yang and Liu argue that the district court erred in denying their motion for judgment as a matter of law or for a new trial because Liu is the true owner of the China RevUp32 program and consequently neither she nor Yang could have infringed Price Waterhouse's copyrights. They contend that because the Sky Company programmers exclusively authored the China RevUp32 program, the ownership interest in the China RevUp32 copyrights vested in the programmers. Further, according to Liu and Yang, the June 7, 1995 letter agreement is not a valid transfer of copyright ownership from the Sky Company programmers to Price Waterhouse. Additionally, Yang and Liu contend that the district court abused its discretion in admitting hearsay testimony from Price

Waterhouse and CLR's economic expert; that the district court abused its discretion in granting Price Waterhouse and CLR's motion for remittitur; and that the district court abused its discretion in denying Yang's motion for prejudgment interest and costs.

II. Analysis

A. Renewed Motion for Judgment as a Matter of Law or a New Trial

We review the denial of a post-trial motion for judgment as a matter of law de novo but view the evidence in a light most favorable to the nonmoving party. *See Am. Nat'l Bank & Trust v. Reg'l Transp. Auth.*, 125 F.3d 420, 431 (7th Cir.1997). In applying this de novo standard of review, we evaluate whether any reasonable jury could have reached the same conclusion. *See id.* If we answer this question affirmatively, then we will not overturn the district court's denial of the motion. *See id.* With respect to Yang and Liu's motion for a new trial, we will only overturn the district court's denial of this motion for an abuse of discretion. *See id.* Under this standard, "we shall not second-guess the decision of a trial judge that is in conformity with established legal principles and, in terms of its application of those principles to the facts of the case, is within the range of options from which one would expect a reasonable trial judge to select." *Id.* (quotation omitted).

Yang and Liu do not dispute that Price Waterhouse authorized Yang and the Sky Company programmers to produce a derivative work using the original RevUp32 program. Instead, Yang and Liu contend that contrary to the findings below, the intent of the parties is irrelevant to the question of who owns the copyrights in the derivative work. They assert that even if the parties intended that Price Waterhouse would own the copyrights in the derivative work, Price Waterhouse by law cannot own these copyrights because the derivative work's authors did not execute a written document assigning

ownership of the derivative work to Price Waterhouse pursuant to 17 U.S.C. § 204(a). Section 204(a) provides that "[a] transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent." 17 U.S.C. § 204(a).

Yang and Liu's reasoning is flawed. Price Waterhouse, as the owner of the copyrights in the original RevUp32 program, possesses the exclusive right to prepare derivative works from this original program. *See* 17 U.S.C. § 106(2); *Stewart v. Abend*, 495 U.S. 207, 220, 110 S.Ct. 1750, 109 L.Ed.2d 184 (1990). Because Price Warehouse possesses such an exclusive right, in order for the Sky Company programmers to have lawfully prepared a derivative work, the programmers needed authorization from Price Waterhouse to use its original program. *See S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088-89 (9th Cir.1989). The June 7, 1995 letter agreement authorized Yang to recruit the Sky Company programmers to use its original work to prepare a derivative work. Because the trial court found that the language of the June 7, 1995 agreement was ambiguous, it was appropriate to look at the intent of the parties to determine the scope of the Sky Company programmers' authorization. The June 7, 1995 letter agreement stated that "[u]pon completion of the project, ALL source code will be given back to Price Waterhouse." Viewing this language in a light most favorable to Price Waterhouse and CLR, the license agreement provided that Price Waterhouse, not the Sky Company programmers, would obtain copyright ownership of the China RevUp32 program.

Further, obtaining copyright protection in the derivative work was beyond the scope of the permissible uses authorized by the June 7, 1995 letter agreement. *See* 1 NIMMER ON COPYRIGHT § 3.06, at 3-34.26 at 26(1) (2002) ("[T]he right to claim copyright in a noninfringing derivative work arises by operation of law, not through authority from the

copyright owner of the underlying work. *Nonetheless, if the pertinent agreement between the parties affirmatively bars the licensee from obtaining copyright protection even in a licensed derivative work, that contractual provision would appear to govern.*") (emphasis added); *see also Gracen v. Bradford Exch.*, 698 F.2d 300, 303 (7th Cir.1983) (stating that "[e]ven if [Gracen] was authorized to exhibit her derivative works, she may not have been authorized to copyright them").

Contrary to Yang and Liu's argument on appeal, because the Sky Company programmers never had any ownership interest in the copyrights in the derivative China RevUp32 program, 17 U.S.C. § 204(a) is inapplicable. As the district court explained:

> While the Copyright Act makes authors of derivative works the presumptive owners of copyright rights in their contribution, it also allows parties to adjust those rights by contract. Here, the jury found that the parties to the letter agreement did just that--agreed that Price Waterhouse would hold the copyright in the derivative work. Because of the ambiguity in the letter agreement, it was necessary and proper for the jury to consider "the parties" ' intent in entering into the letter agreement in order to determine the respective rights of Price Waterhouse, Yang and the subsequent authors of the derivative work, even though those subsequent authors, the Sky Company Programmers, did not sign the letter agreement.

Because the jury found that, pursuant to the June 7, 1995 letter agreement, the parties intended that Price Waterhouse would own the copyrights in the derivative work, we find no error in the district court's denial of Yang and Liu's motion for judgment as a matter of law and no abuse of discretion in

the district court's denial of Yang and Liu's motion for a new trial.[3]

B. Motion In Limine to Exclude Expert Testimony

Next, Liu argues that we should reverse the district court's denial of her motion in limine to exclude the testimony of Price Waterhouse and CLR's accounting expert, Julie Davis, on the issue of Liu's alleged damages due to Price Waterhouse and CLR's copyright infringement. We review a trial court's ruling on the admission of expert testimony for an abuse of discretion. *See Bourelle v. Crown Equip. Corp.*, 220 F.3d 532, 535 (7th Cir. 2000). However, we note that even if the district court abused its discretion in admitting Davis's expert testimony, such an error is not grounds "for granting a new trial or for setting aside a verdict or for vacating, modifying, or otherwise disturbing a judgment or order, unless refusal to take such action appears to the court inconsistent with substantial justice." Fed. R. Civ. P. 61; *see also Palmquist v. Selvik*, 111 F.3d 1332, 1339 (7th Cir. 1997) ("Disturbing the judgment of the district court on evidentiary grounds is necessary only if an erroneous ruling had a substantial influence over the jury.") (quotation omitted). Accordingly, we will not reverse a jury verdict if an erroneous admission of expert testimony is harmless; we recognize that an error is harmless if it did not contribute to the verdict in a meaningful manner. *See Jones v. Lincoln Elec. Co.*, 188 F.3d 709, 725 (7th Cir. 1999).

In the present case, Davis testified to the amount of damages Liu sustained on account of Price Waterhouse and CLR's alleged infringement of her copyrights. The jury, however, never actually reached this issue when determining their verdict because the jury found that neither Price Waterhouse

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[3] We do not need to reach the merits of Yang and Liu's second argument on appeal--that the district court erred in denying certain revised jury instructions regarding damages--as it relies upon a finding that Liu was the true owner of the copyright in the China RevUp32 program.

nor CLR was liable to Liu for any damages for infringement, as neither party was found to have committed copyright infringement. Therefore, Davis's testimony was irrelevant to the jury's verdict. Thus, even if we were to assume that the district court did err in denying Liu's motion in limine, we would not disturb the judgment of the district court as Davis's testimony cannot be shown to have had any influence at all upon the jury's verdict.

C. Motion for Remittitur

Next, Yang argues that the district court's grant of Price Waterhouse and CLR's motion for remittitur should be reversed because she claims that she is entitled to excess damages above and beyond the $246,000 under several different theories of tort liability. "[A] jury has wide discretion in determining damages." *Am. Nat'l Bank & Trust,* 125 F.3d at 437. And a "trial judge may vacate a jury's verdict for excessiveness only when the award was 'monstrously excessive' or the award has 'no rational connection to the evidence.' " *DeBiasio v. Ill. Cent. R.R.,* 52 F.3d 678, 687 (7th Cir. 1995); *see also Frazier v. Norfolk & W. Railway Co.,* 996 F.2d 922, 925 (7th Cir. 1993). Here, the district court explained that the only evidence Yang submitted in support of her breach-of-contract damages was her invoice to Price Waterhouse for $246,000. Additionally, Yang failed to plead any allegations of tortious conduct; the jury was never instructed on the elements of any torts that Yang now argues support the jury's $600,000 verdict; and finally, Yang consented to jury instructions that limited her contract damages to $264,000. This last reason standing alone is sufficient to find against Yang on appeal. *See Jabat, Inc. v. Smith,* 201 F.3d 852, 857 (7th Cir. 2000) ("When parties do not object to jury instructions, these instructions generally become the law of the case.") (quotation omitted). Once the law of the case is settled, the parties can only argue that the jury did not properly apply the instructions to the facts. *See id.* Consequently, we find no error in the district court's determination that a por-

tion of the jury's award was not rationally connected to the evidence.

D. Prejudgment Interest

Finally, Yang argues that under the Illinois Interest Act, 815 ILCS 205/2 (1998), she is entitled to prejudgment interest on her breach-of-contract claim.[4] Here, the district court denied Yang prejudgment interest because Price Waterhouse had a good-faith dispute with Yang regarding ownership of the source code in the China RevUp32. Yang argues that it does not matter that there was a good-faith dispute over the source code. Rather, Yang asserts that as long as the amount she was owed was readily ascertainable, she is entitled to prejudgment interest.

A district court's decision to award or deny prejudgment interest will not be disturbed unless that decision constitutes an abuse of discretion. *See Singer Co. v. Skil Corp.,* 803 F.2d 336, 341 (7th Cir. 1986). Under the Illinois Interest Act, a creditor is entitled to receive a 5% per annum interest rate on all monies after they become due if they are being withheld by an unreasonable and vexatious delay of payment. 815 ILCS § 205/2. However, if payment is being withheld in good faith, because of a genuine and reasonable dispute, interest will not be awarded. *See Gen. Dynamics Corp. v. Zion State Bank & Trust Co.,* 86 Ill.2d 135, 56 Ill.Dec. 51, 427 N.E.2d 131, 134 (1981). This good-faith exception recognized in *General Dynamics* has been limited by the Illinois appellate courts. In *Weidner v. Szostek,* 245 Ill.App.3d 487, 185 Ill.Dec. 438, 614 N.E.2d 879, 883-84 (1993), the Illinois appellate court explained that when parties' contracts specifically provide for prejudgment interest on amounts past due,

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[4] Yang also argues that the district court abused its discretion when it denied her motion for costs. Yang premises this argument on the assumption that we would find Liu to be the proper owner of the copyright in the China RevUp32 program. Because we made no such finding, there is no need to discuss this argument.

the good- faith exception set out in *General Dynamics* is inapplicable. However, when a prejudgment interest award is being claimed pursuant to a statute, then the good-faith exception set out in *General Dynamics* may apply. *See id.* Although the Illinois Supreme Court has not spoken directly to this issue, we believe that the Illinois appellate court's position is correct.

Here, Yang is claiming prejudgment interest pursuant to the Illinois Interest Act, 815 ILSC § 205/2. The parties themselves, however, never contemplated awarding prejudgment interest on amounts past due in their agreement. Thus, in this instance the *General Dynamics* good-faith exception could be applicable. Because Yang failed to turn over the source code pursuant to the June 7, 1995 letter agreement, we believe that the district court did not abuse its discretion in finding that payment was being withheld by Price Waterhouse in good faith because of a genuine and reasonable dispute between the parties and that therefore, Yang was not entitled to an award of prejudgment interest.

III. Conclusion

For the foregoing reasons, we AFFIRM the district court.

APPENDIX B

1999 WL 47025

United States District Court, N.D. Ill., Eastern Division.

Xu LIU, Plaintiff-Counterdefendant,

v.

PRICE WATERHOUSE LLP and COMPUTER LANGUAGE RESEARCH, INC., Defendants-Counterclaimants,

PRICE WATERHOUSE LLP and COMPUTER LANGUAGE RESEARCH, INC., Third-Party Plaintiffs,

v.

Xiaomei YANG, Third-Party Defendant.

No. 97 C 3093.

Jan. 25, 1999.

MEMORANDUM OPINION AND ORDER

HOLDERMAN, District J.

Plaintiff-Counterdefendant Xu Liu filed a complaint against Defendants- Counterclaimants Price Waterhouse LLP ("PW") and Computer Language Research, inc. ("CLR") (collectively, "PW/CLR") alleging copyright infringement pursuant to 17 U.S.C. § § 501, *et seq.* PW and CLR filed an Answer and Counterclaims against Liu pursuant to the copyright laws of the United States, 17 U.S.C. § § 501,*et seq.*, the Illinois Trade Secrets Act, 765 ILCS 1065/1, *et seq.*, the Illinois Consumer Fraud and Deceptive Practices Act, 815 ILCS 505/2, *et seq.*, and the Federal Declaratory Judgment Act, 28 U.S.C. § 2201. PW and CLR also filed a Third-Party Complaint against Third-Party Defendant Xiaomei Yang for

breach of contract, conversion, and copyright infringement under the copyright laws of the United States. Yang filed an Answer to the Third-Party Complaint and a Counterclaim against PW and CLR pursuant to the Illinois Consumer Fraud and Deceptive Practices Act. Liu and Yang filed a motion for summary judgment seeking to dismiss PW/CLR's counterclaim and third party complaint and Liu filed a motion for summary judgment regarding infringement against PW and CLR. Liu and Yang also filed a motion to strike portions of PW/CLR's authorship defense. In addition, PW and CLR filed three motions for summary judgment against Liu and Yang. For the following reasons, all of these motions for summary judgment are denied.

STATEMENT OF FACTS[1]

This case centers around the changes made to a software program known as "REVUP32." PW's original REVUP32 was an interface program used with PW's Tax Management System (TMS) software program. PW's Tax Technology Group (TTG) developed the TMS program which is used to prepare state and federal tax returns for corporations. REVUP32 allows parts of the TMS program to gain access to the TMS database.

In an effort to increase the operating speed of the original REVUP32, PW asked Yang in March 1995 to go to China to locate programmers who could increase the speed of the program. In China, Yang found programmers at the Sichuan Sky Company, Limited (Sky) in Chengdu and, according to PW, others programmers located in Shanghai and Beijing.[2] After

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[1] The following statement of facts comes from the parties' Local Rule 12(M) and (N) statements of material facts and accompanying exhibits.

[2] Liu and Yang have filed a motion to strike portions of PW/CLR's defense that other programmers than those at Sky authored the version of REVUP32 that Liu copyrighted. Liu and Yang argue in that motion that PW/CLR never explicitly stated that defense in any of their pleadings. In their first affirmative defense, PW/CLR merely stated that "plaintiff does

finding these groups of available Chinese programmers, Yang returned to Chicago in May 1995. PW then gave the source code for the original REVUP32 to Yang so she could deliver it to the Chinese programmers.

The parties dispute the extent to which PW authorized Yang and the Chinese programmers to use the original REVUP32 program. Gerald P. Niles, the Chief Development Officer/Senior Vice-President of TTG, explained the conditions under which TTG would supply the source code for the REVUP32 program in a June 7, 1995 letter from Niles to Yang:

> The Tax Technology Group will supply the source code for RevUp and Runtime. It is clearly understood that the source code is the sole property of Price Waterhouse and Price Waterhouse gives no authority, implied or otherwise, to distribute or copy this source code in any way. Upon completion of the project, ALL source code will be given back to Price Waterhouse.

(emphasis in original). The parties dispute whether the June 7, 1995 letter may be construed as a license. PW argues that it is a license; Yang and Liu argue that it is not a license and that the word "license" never appears in the June 7, 1995 letter. Yang's attorney in an April 1, 1996 letter to PW wrote that Yang had informed Niles of PW before Yang's June 8, 1995 trip to China that PW's statements in the June 7, 1995 letter were a part of the "written assurances [which] were necessary to induce the Chinese programmers to proceed with their work." (Ex. 9 to PW/CLR's Mem. in Opp'n to Yang/Liu's Mot. for Summ J.) In a November 21, 1995 e-mail message to PW discussing the June 7, 1995 letter, Yang wrote: "According to the [June 7, 1995] agreement, the enhancement in the

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not have a valid copyright in the work referred to in the complaint." (Answer and Countercl. by PW/CLR at 11.) Under the notice pleading requirements of the Federal Rules of Civil Procedure, this is sufficient. Liu and Yang's motion to strike PW/CLR's authorship defense is denied.

source code becomes the property of PW upon completion of the project ...." The parties dispute the meaning of that sentence.

Additionally, the June 7, 1995 letter and a letter dated May 22, 1995 set forth other terms regarding the relationship between PW and Yang and the Chinese programmers. Among those additional terms were terms that tied the amount of money to be paid to the Chinese programmers to the percentage increase in the operating speed of the REVUP32 program. Specifically, PW agreed to pay $1,000 for each 1% improvement in the operating speed. PW has never paid Yang or the Chinese programmers any money based on that June 7, 1995 letter. According to PW, PW never paid them because they did not return the source code to PW as required by the June 7, 1995 letter.

After receiving the source code, the Chinese programmers, who were not employees of PW, modified the original REVUP32 program in order to increase its speed. The parties dispute whether Yang worked on the actual modifications to the REVUP32 code. On October 8, 1995, the Chinese programmers, through Yang, forwarded the object code for their final modified version of the REVUP32 program to PW; according to Yang, she forwarded the code merely for testing.

In December 1995, PW sent draft agreements to Yang. These draft agreements were in regard to the assignment to PW of any rights Yang and the Chinese programmers had in the modified REVUP32 program. PW denies that these agreements were necessary for PW to establish ownership of the modified REVUP32 code. Neither Yang nor the Chinese programmers signed the December 1995 draft agreements. Also in December of 1995, CLR purchased TTG from PW.

On or about February 9, 1996, the Chinese programmers and Sky assigned all of their rights, title, and interests in the modified REVUP32 program to Liu. Liu then filed an application for copyright registration on the modified REVUP32

program. The United States Copyright Office issued a Certificate of Registration for the modified REVUP32 program. That Certificate had an effective date of March 15, 1996.

As for TTG's use of the Chinese programmers' version of REVUP32, TTG used that version until TTG replaced it on November 5, 1996 with a version of REVUP32 that Patrick McNerthney, the author of the original REVUP32 program, had modified. CLR contacted McNerthney in January 1996 about the REVUP32 program. The parties dispute the reasons why CLR contacted McNerthney. According to PW/CLR, CLR contacted McNerthney so that McNerthney could optimize the same original REVUP32 program on which the Chinese programmers had worked. According to Yang and Liu, however, CLR contacted McNerthney so that McNerthney could reverse engineer the Chinese programmers' version of the REVUP32 program and then prepare a different version of the modified REVUP32 program which maintained the same optimized speeds produced by the Chinese programmers. The parties also dispute whether McNerthney was independently aware of certain techniques used by the Chinese programmers to increase the performance of the REVUP32 program.

STANDARD OF REVIEW

Under Rule 56(c), summary judgment is proper "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed.R.Civ.P. 56(c). In ruling on a motion for summary judgment, the evidence of the nonmovant must be believed and all justifiable inferences must be drawn in the nonmovant's favor. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986). This court's function is not to weigh the evidence and determine the truth of the matter, but to determine whether there is a genuine issue for trial. A party who will bear the burden of proof on a particular issue at trial may not rest on

the pleadings, but must affirmatively demonstrate, by specific factual allegations, that there is a genuine issue of material fact which requires trial. *Celotex Corp. v. Catrett,* 477 U.S. 317, 324 (1986). There is no issue for trial "unless there is sufficient evidence favoring the nonmoving party for a jury to return a verdict for that party." *Anderson,* 477 U.S. at 249.

ANALYSIS

I. *Liu's Copyrighting of the Derivative Work*

The June 7, 1995 letter, which the parties agree authorized the Chinese programmers to prepare a derivative work, did not explicitly authorize the programmers to copyright that derivative work. The June 7, 1995 letter did not, however, explicitly prohibit the programmers from copyrighting their derivative work either. PW/CLR argue that the absence of any authorization to copyright a derivative work necessarily renders Liu's copyright unenforceable pursuant to the Seventh Circuit's decision in *Gracen v. Bradford Exchange,* 698 F.2d 300 (7th Cir.1983). PW/CLR rely on the following portion of the Seventh Circuit's opinion in *Gracen*:

> The initial issue is again the scope of [Gracen, the plaintiff's] implied license from Bradford. Even if she was authorized to exhibit her derivative works, she may not have been authorized to copyright them. Bradford was licensed to use MGM's copyright in its series of collector's plates but not to copyright the derivative works thus created. A copyright owner is naturally reluctant to authorize a licensee to take out copyrights on derivative works-- copyrights that might impede him in making his own derivative works or in licensing others to do so. And it would have made no more sense for Bradford, the licensee, to arm Miss Gracen, its sublicensee, with a weapon--the right to copyright her derivative works--that she could use to interfere with Bradford's effort to get another artist to do the plates if it could not cut a deal with her.

Gracen, 698 F.2d at 303-04.

On its face, this language, despite its lack of any citations, seems to be dispositive of Liu's claim of copyright infringement. In the very next paragraph of the *Gracen* opinion, however, the court made the following statement which makes it clear that the above quoted language was merely dicta:

> We are reluctant to stop here, though, and uphold the dismissal of the complaint on the basis of an issue of fact that the district judge did not address, and that we therefore may have got wrong, so we shall go on and consider his ground for dismissal of the complaint--that Miss Gracen's painting and drawings are not original enough to be copyrightable.

Id. at 304. The court continued its analysis and went on to hold that the plaintiff's painting was not an original derivative work within the meaning of the Copyright Act. *Id.* at 305. To consider the language from *Gracen* quoted by PW/CLR alone would be taking it out of context. *See Theotokatos v. Sara Lee Personal Products,* 971 F.Supp. 332, 340 (N.D.Ill.1997).

Only two other published cases, *Fred Riley Home Bldg. Corp. v. Cosgrove,* 864 F.Supp. 1034, 1037 (D.Kan.1994) and *Gallery House, Inc. v. Yi,* 582 F.Supp. 1294, 1297 (N.D.Ill.1984), have cited *Gracen* for the proposition that the license must explicitly grant a licensee the authority to copyright a derivative work. No other published case has cited *Gracen* for this proposition. Moreover, Professor Nimmer has criticized that portion of *Gracen* as unsupported by the law:

> *Gracen v. Bradford Exchange,* 698 F.2d 300 (7th Cir.1983), would appear to be incorrect in its suggestion that copyright in any derivative work may not be claimed, even if the making of such work had been licensed, unless such license affirmatively included the right to claim copyright in the derivative work. Subject to the exceptions noted above regarding musical ar-

> rangements and ephemeral recordings, the right to claim copyright in a non-infringing derivative work arises by operation of law, not by reason of authority from the copyright owner of the underlying work.

1 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 3.06 n. 14 (1997). For these reasons, this court rejects PW/CLR's argument that *Gracen* dictates that Liu's claim of infringement must fail and that they are entitled to judgment as a matter of law on their copyright claim.

II. *Genuine Issues of Material Fact Exist Regarding Any Substantial Similarity between Liu's Version and McNerthney's Version and the Meaning of Statements Made by Yang and PW*

Liu alleges that the McNerthney version of REVUP32 infringes on her copyrighted version which was produced by the Chinese programmers. Copyright infringement may be proven when it is shown that "the defendant had access to the copyrighted work, and the accused work is substantially similar to the copyrighted work." *Wildlife Express Corp. v. Carol Wright Sales, Inc.* 18 F.3d 502, 508 (7th Cir.1994) (*quoting Atari, Inc. v. North American Philips Consumer Elecs. Corp.*, 672 F.2d 607, 614 (7th Cir.1982)). The determination whether there is substantial similarity is made by the "ordinary observer" test: "whether the accused work is so similar to the plaintiff's work that an ordinary reasonable person would conclude that the defendant unlawfully appropriated the plaintiff's protectable expression by taking material of substance and value." *Id.* at 509 (*quoting Atari,* 672 F.2d at 614). This would require the court to compare McNerthney's version with the Chinese programmers' version. This is a factual determination which is inappropriate for the court to decide in the context of a motion for summary judgment.

Other essential fact questions about which the parties argue concern what Yang meant in her statement in her November 21, 1995 e-mail that "the enhancement in the source

code becomes the property of PW upon completion of the project" and whether the project was actually completed. Other fact questions concern whether Yang contributed to the modification of the original REVUP32 program and the importance of PW's request that Yang and the Chinese programmers sign agreements in which they would assign all of their rights in the modified REUP32 program to PW. These fact questions also preclude this court from granting any of the motions for summary judgment.

CONCLUSION

For these reasons, Liu's and Yang's Motion for Summary Judgment Dismissing Defendants' Counterclaim and Third-Party Complaint [# 50] and Liu's Motion for Summary Judgment [# 107] are DENIED and Liu's and Yang's Motion to Strike Portions of PW/CLR's Authorship Defense [# 80] is DENIED. Price Waterhouse's and Computer Language Research's Motion for Summary Judgment against Liu [# 65], Motion for Summary Judgment against Yang [# 66], and Motion for Summary Judgment [# 111] are also DENIED. The parties are once again strongly urged to discuss the settlement of this case and report on the status thereof on February 11, 1999 at 10:00 a.m.

APPENDIX C

United States District Court
Northern District of Illinois
Eastern Division

LIU **JUDGMENT IN A CIVIL CASE**

v. Case Number: 97 C 3093

PRICE WATERHOUSE et al

- • Jury Verdict. This action came before the Court for a trial by jury. The issues have been tried and the jury rendered its verdict.

- ○ Decision by Court. This action came to trial or hearing before the Court. The issues have been tried or heard and a decision has been rendered.

IT IS HEREBY ORDERED AND ADJUDGED that judgment is entered in favor of defendants Price Waterhouse et al and against plaintiff Liu on the complaint;

Counterclaim: in favor of counter-plaintiffs Price Waterhouse et al and against counter-defendant Liu on the copyright infringement claim in the amount of $200.00 and in favor of counter-defendant Liu and against counter-plaintiff Price Waterhouse et al on trade secret misappropriation claim;

Third Party Claims: in favor of third party plaintiff Price Waterhouse et al and against third party defendant Yang on the claim of contributory copyright infringement in the amount of $200.00 and claims of breach of contract, breach of fiduciary duty and conversion of property in the amount of $0.00 and in favor of third party defendant Yang and against

third party plaintiff Price Waterhouse et al on the claim of trade secret misappropriation;

Counterclaim: in favor of counter-plaintiff Yang and against counter-defendants Price Waterhouse et al in the amount of $600,000.00.

Michael W. Dobbins, Clerk of Court

Date: 11/22/2000 s/_____
J. Smith, Deputy Clerk

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

XU LIU,
Plaintiff,

vs.

CASE NO. 97 C 3093
Judge James F. Holderman

PRICE WATERHOUSE LLP and COMPUTER LANGUAGE RESEARCH, INC.,
Defendants,

OFFICIAL
VERDICT FORM NO. 1

JURY'S VERDICT AS TO XU (SUSAN) LIU'S CLAIM OF COPYRIGHT INFRINGEMENT AGAINST PRICE WATERHOUSE AND COMPUTER LANGUAGE RESEARCH

Copyright Liability

1. Has Xu (Susan) Liu proven by a preponderance of the evidence that she has a valid copyright in China RevUp32?

   Yes _____ No __X__

   (If you answered "Yes" to question No. 1, then answer questions 2(a) and 3(a). If you answered "No" to question No. 1, then skip all further questions on this verdict form, and sign the verdict form.)

2(a). Has Xu (Susan) Liu proven by a preponderance of the evidence that Price Waterhouse infringed her copyright in China RevUp32?

Yes_____ No_____

(If you answered "Yes" to question No. 2(a), then answer question 2(b). If you answered "No" to question No. 2(a), then go to question 3(a).)

2(b). Has Xu (Susan) Liu proven by a preponderance of the evidence that Price Waterhouse committed willful infringement of her copyright in China RevUp32?

Yes _____ No _____

(Go to questions 3(a).)

3(a). Has Xu (Susan) Liu proven by a preponderance of the evidence that CLR infringed her copyright in ChinaRevUp32?

Yes _____ No _____

(If you answered "Yes" to 3(a) then answer question No. 3(b). If you answered "No" to question 3(as) then go to question 4.).

3(b). Has Xu (Susan) Liu proven by a preponderance of the evidence that CLR committed willful infringement of her copyright in China RevUp32?

Yes _____ No _____

(Go to question 4.)

Damages

4. If you answered "Yes" to question No. 1 and question No. 2(a), then answer question 4(a). If you answered "No" to either question No. 1 or question No. 2(a) then skip question 4(a) and go to question 5.

4(a). What amount of damages, if any, is Xu (Susan) Liu entitled to as a result of Price

Waterhouse's infringement of her ChinaRevUp32 copyright?

$ _____

(Go to question 5.)

5. If you answered "Yes" to question No. 1 and question No. 3(a), then answer question 5(a). If you answered "No" to either question No. 1 or question 3(a) then skip question 5(a) and sign the verdict form.

5(a). What amount of damages, if any, is Xu (Susan) Liu entitled to as a result of CLR's infringement of her ChinaRevUp32 copyright?

$ _____

(Sign the verdict form.)

Signed:

s/_____

Foreperson

s/_____	s/_____
s/_____	s/_____
s/_____	s/_____
s/_____	s/_____

Date:

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

PRICE WATERHOUSE LLP
and,
COMPUTER LANGUAGE
RESEARCH, INC.,
Counterplaintiff and
Third-Party Plaintiffs,
vs.

XU LIU,
Counterdefendant,
and

XIAOMEI YANG,
Third-Party Defendant.

CASE NO. 97 C 3093
Judge James F. Holderman

OFFICIAL
VERDICT FORM NO. 2

JURY'S VERDICT AS TO PRICE WATERHOUSE'S AND COMPUTER LANGUAGE RESEARCH'S CLAIMS AGAINST XU (SUSAN) LIU OF (1) COPYRIGHT INFRINGEMENT AND (2) TRADE SECRET MISAPPROPRIATION AND CLAIMS AGAINST XIAOMEI (CHERYL) YANG OF (1) CONTRIBUTORY COPYRIGHT INFRINGEMENT, (2) BREACH OF CONTRACT, (3) BREACH OF FIDUCIARY DUTY, (4) CONVERSION OF PROPERTY, AND (5) TRADE SECRET MISAPPROPRIATION

Copyright Infringement

1. Have Price Waterhouse and CLR proven by a preponderance of the evidence that they have a valid copyright in pre-China RevUp32 and China RevUp32?

   Yes __X__ No _____

   (If you answered "Yes" to question No. 1, then answer question 2. If you answered "No" to question No. 1, then skip to question 5.)

2. Have Price Waterhouse and CLR proven by a preponderance of the evidence that Xu (Susan) Liu infringed their copyright in pre-China RevUp32 and China RevUp32?

   Yes __X__ No _____

   (If you answered "Yes" to question No. 2, then go to answer questions 3 and 4. If you answered "No" to question No. 2, then skip to question 5.)

3. Have Price Waterhouse and CLR proven by a preponderance of the evidence that Xu (Susan) Liu committed willful infringement of their copyright in pre-China RevUp32 and China RevUp32?

   Yes _____ No __X__

   (Go to question 4.)

4. Have Price Waterhouse and CLR proven by a preponderance of the evidence that Xiaomei (Cheryl) Yang contributed to Xu (Susan) Liu's infringement of their copyright in pre-China RevUp32 and China RevUp32?

   Yes __X__ No _____

   (Go to question 5.)

Breach of Contract

5. Has Price Waterhouse proven by a preponderance of the evidence that Xiaomei (Cheryl) Yang breached her contract with Price Waterhouse?

Yes __X__ No _____

(Go to question 6.)

Breach of Fiduciary Duty

6. Has Price Waterhouse proven by a preponderance of the evidence that Xiaomei (Cheryl) Yang breached her fiduciary duty with Price Waterhouse

Yes __X__ No ____

(Go to question 7.)

Conversion of Property

7. Have Price Waterhouse and CLR proven by a preponderance of the evidence that Xiaomei (Cheryl) Yang converted Price Waterhouse's or CLR's property?

Yes __X__ No ____

(Go to question 8.)

Misappropriation of Trade Secrets

8. Have Price Waterhouse and CLR proven by a preponderance of the evidence that they have a trade secret in RevUp32 and the post-China RevUp32?

Yes __X__ No ____

(If you answered "Yes" to question 8, then go to answer questions 9 and 10. If you answered "No" to question 8, then skip to question 11.)

9. Have Price Waterhouse and CLR proven by a preponderance of the evidence that Xiaomei (Cheryl) Yang misappropriated Price Waterhouse or CLR's trade secrets?

Yes _____ No __X__

(Go to question 10.)

10. Have Price Waterhouse and CLR proven by a preponderance of the evidence that Xu (Susan) Liu misappropriated Price Waterhouse's or CLR's trade secrets?

Yes _____ No __X__

(Go to question 11.)

Copyright Infringement Damages

11. If you answered "Yes" to questions No. 1 and No. 2, then answer question 11(a). If you answered "No" to question No. 1 or No. 2, then skip to question No. 12

    11(a). What amount of damages, if any, is Price Waterhouse and CLR entitled to as a result of Xu (Susan) Liu infringement of their pre-ChinaRevUp32 and ChinaRevUp32 copyrights.

    $ 200.00

    (Go to question 12.)

12. If you answered "Yes" to questions No. 1, No. 2, and No. 4, then answer questions 12(a). If you answered "No" to question No. 1, No. 2 or No. 4, then skip to question No. 13:

    12(a). What amount of damages, if any, is Price Waterhouse and CLR entitled to as a result of Xiaomei (Cheryl) Yang's contributory infringement of their pre-ChinaRevUp32 and ChinaRevUp32 copyrights?

    $200.00

    (Go to question 13.)

Breach of Contract Damages

13. If you answered "Yes" to question No. 5, then answer question 13(a). If you answered "No." to question No. 5, then skip to question No. 14:

    13(a). What amount of damages, if any, is Price Waterhouse entitled to as a result of Xiaomei (Cheryl) Yang's breach her contract with Price Waterhouse?

    $0_____

    (Go to question 14.)

Breach of Fiduciary Duty Damages

14. If you answered "Yes" to question No. 6, then answer question 14(a). If you answered "No" to question No. 6, then skip to question No. 15:

    14(a). What amount of damages, if any, is Price Waterhouse entitled to as a result of Xiaomei (Cheryl) Yang's breach of her fiduciary duty?

    $0_____

    (Go to question 15.)

Conversion of Property Damages

15. If you answered "Yes" to question No. 7, then answer question 15(a). If you answered "No" to question No. 7, then skip to question No. 16:

    15(a). What amount of damages, if any, is Price Waterhouse and CLR entitled to as a result of Xiaomei (Cheryl) Yang's conversion of their property?

    $0_____

    (Go to question 16.)

Misappropriation of Trade Secrets Damages

16. If you answered "Yes" to question No. 8 and No. 9, then answer question 16(a). If you answered "No" to question No. 8 or No. 9, then skip to question No. 17:

    16(a). What amount of damages, if any, is Price Waterhouse and CLR entitled to as a result of Xiaomei (Cheryl) Yang's misappropriation of their trade secrets?

    $_____

    (Go to question 17.)

17. If you answered "Yes" to question No. 8 and No. 10, then answer question 17(a). If you answered "No" to question

No. 8 or No. 10, then skip question No. 17 and sign the verdict form:

17(a). What amount of damages, if any, is Price Waterhouse and CLR entitled to as a result of Xu (Susan) Liu's misappropriation of their trade secrets?

$_____

(Sign the verdict form.)

Signed:

s/_____
Foreperson

s/_____ s/_____
s/_____ s/_____
s/_____ s/_____
s/_____ s/_____

Date:

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

XIOMEI YANG,
Counterplaintiff,

vs.

CASE NO. 97 C 3093
Judge James F. Holderman

PRICE WATERHOUSE LLP and, COMPUTER LANGUAGE RESEARCH, INC.,
Counterdefendants.

OFFICIAL
VERDICT FORM NO. 3

JURY'S VERDICT AS TO XIAOMEI (CHERYL) YANG'S COUNTERCLAIM OF BREACH OF CONTRACT AGAINST PRICE WATERHOUSE AND COMPUTER LANGUAGE RESEARCH

Breach of Contract

1. Has Xiaomei (Cheryl) Yang proven by a preponderance of the evidence that Price Waterhouse breached its contract with her?

   Yes __X__ No ____

   (If you answered "Yes" to question No. 1, then go to question 2. If you answered "No" to question No. 1`, then skip question 2, and sign the verdict form.)

Damages

2. If you answered "Yes" to question No. 1 then answer question 2(a). If you answered "No" to question No. 1 then skip question 2(a) and sign the verdict form.

2(a). What amount of damages, if any, is Xiaomei (Cheryl) Yang entitled to as a result ~~of Price~~ Waterhouse's beach of contract?

$600,000.00

(Sign the verdict form.)

Signed:

s/_____
Foreperson

s/_____
s/_____
s/_____
s/_____

s/_____
s/_____
s/_____
s/_____
s/_____

Date:

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

XU LIU,
Plaintiff-
Counterdefendant,

vs.

PRICE WATERHOUSE
LLP and
COMPUTER
LANGUAGE
RESEARCH, INC.,
Defendants-
Counterplaintiffs,

CASE NO. 97 C 3093
Judge James F. Holderman

PRICE WATERHOUSE
LLP and,
COMPUTER
LANGUAGE
RESEARCH, INC.,
Third-Party Plain-
tiffs -
Counterdefendants,

vs.

XIAOMEI YANG
Third-Party Defen-
dant-
Counterplaintiff

OFFICIAL
SPECIAL INTERROGATORIES

1. In the June 7, 1995 letter agreement (PW/CLR, Exhibit 1/Liu Exhibit 17), did the parties intend that the China RevUp32 program, including the copyright, would become the property of Price Waterhouse upon completion of the project?

   Yes: X No: ____

2. Was the RevUp32 project as contemplated by the June 7, 1995 letter agreement (PW/CLR Exhibit 1/Liu Ex. 17) complete?

   Yes: X No: ____

3. Were the Sichuan Sky programmers the sole and exclusive authors of the enhancements in the pre-China RevUp32 made in China?

   Yes: X No: ____

4. Was Xiaomei Yang a Price Waterhouse employee while she was in China in 1995?

   Yes: X No: ____

5. Was Xiaomei Yang a joint author of any portion of the China RevUp32?

   Yes: ____ No: X

6. Did Xu Liu knowingly fail to advise the Copyright Office of Price Waterhouse's claim to ownership of the China RevUp32 when she applied for the China RevUp32?

   Yes: ____ No: X

7. Is Patrick McNerthney's post-China RevUp32 substantially similar to the China RevUp32?

   Yes: ____ No: X

8. Did the three employment agreements Xiaomei Yang signed in 1992, 1994, and 1996 (Joint Exhibits 35, 36, and 37, respectively) obligate Ms. Yang to use her best efforts to protect Price Waterhouse's copyright interests in China RevUp32 while she was employed by Price Waterhouse?

Yes: __X__ No: ____

9. Did Xiaomei Yang use her best efforts to protect Price Waterhouse's copyright interests in China RevUp32 while she was employed by Price Waterhouse?

   Yes: _____ No: __X__

10. Is any part of China RevUp32 a "work of authorship, improvement or idea" – as defined in Ms. Yang's employment agreements (Joint Exhibits 35, 36, and 37) – that Ms. Yang conceived or made in the course of her employment with Price Waterhouse, whether alone or with others?

    Yes: __X__ No: ____

(Sign the Special Interrogatories)

Signed:

s/_____
Foreperson

s/_____	s/_____
s/_____	s/_____
s/_____	s/_____
s/_____	s/_____

Date:

APPENDIX D

182 F. Supp.2d 666

United States District Court,
N.D. Illinois,
Eastern Division.

Xu LIU, Plaintiff-Counterdefendant,

v.

PRICE WATERHOUSE LLP and Computer Language Research, Inc., Defendant-Counterplaintiffs.

Price Waterhouse LLP and Computer Language Research, Inc., Third-Party Plaintiffs-Counterdefendants

v.

Xiaomei Yang Third-Party Defendant-Counterplaintiff

No. 97 CV 3093.

Feb. 28, 2001.

MEMORANDUM OPINION AND ORDER

HOLDERMAN, District Judge.

At the conclusion of a ten-day jury trial, the jury reached a verdict as to each of the parties' claims. The jury found against plaintiff Xu Liu on her claim of alleged copyright infringement by defendants Price Waterhouse LLP ("Price Waterhouse") and Computer Language Research, Inc.

("CLR"). The jury found in favor of counterplaintiffs Price Waterhouse and CLR on their counterclaim of alleged copyright infringement by Liu and awarded $200 in damages to Price Waterhouse and CLR. The jury also found in favor of Price Waterhouse and CLR on their claim of alleged contributory infringement by third-party defendant Yang and awarded $200 in damages to Price Waterhouse and CLR. The jury found against Price Waterhouse and CLR on their counterclaim and third-party claim of alleged trade secret misappropriation by Liu and Yang. The jury found in favor of Price Waterhouse and CLR on their third-party claims of alleged breach of contract, breach of fiduciary duty, and conversion of property by Yang, but awarded no damages. The jury also found in favor of Yang on her counterclaim against Price Waterhouse and CLR for breach of contract and awarded her $600,000 in damages. This court entered judgment on the jury's verdict on November 22, 2000.

All the parties filed timely motions for judgment as a matter of law under Fed.R.Civ.P. 50(a) at trial. Yang and Liu have now filed a renewed motion for judgment as a matter of law under Rule 50(b), or, in the alternative, for a new trial under Rule 59 and a motion for an award of prejudgment interest. Price Waterhouse and CLR have filed a motion for a remittitur of the $600,000 in damages awarded to Yang on her breach of contract claim. For the following reasons, Yang and Liu's renewed motion for judgment as a matter of law or for a new trial is DENIED. Yang and Liu's motion for prejudgment interest is also DENIED. Price Waterhouse and CLR's motion for remittitur is GRANTED.

BACKGROUND AND FINDINGS BELOW

This litigation arises out of an agreement memorialized in a letter dated June 7, 1995 from Price Waterhouse to Yang ("letter agreement") which authorized Yang to go to China in order to find computer programmers to speed up one of Price Waterhouse's tax programs, the RevUp 32 Program ("the Pre-China RevUp Program" or "Pre-China Program"). The pre-

sent motions largely re-hash issues of law which this court addressed before the trial in rejecting the parties' motions for summary judgment. The facts are throughly detailed in this court's orders denying various motions for summary judgment. *See Liu v. Price Waterhouse LLP and Computer Language Research,* 1999 WL 1012452 (N.D. Ill. Oct 19, 1999); *Liu v. Price Waterhouse LLP,* 2000 WL 1644585 (N.D. Ill. Oct 30, 2000).

By way of brief summary, the evidence at trial showed that Yang did go to China, and employed programmers from the Sky Company ("the Sky Programmers") who sped up the Pre-China Program by at least 250%, resulting in a derivative work ("the China RevUp Program" or "China Program"). The parties disputed who owned the copyright in that work under the June 7, 1995 letter agreement. Price Waterhouse took possession of the China RevUp Program and later sold it to CLR. Patrick McNerthny, working for CLR, later created another version of the RevUp Program ("Post-China RevUp Program"). The Sky Programmers sold their alleged rights in the China Program to Liu, Yang's daughter. Liu registered a copyright in the China Program and filed this action for infringement seeking millions of dollars in damages stemming from Price Waterhouse's sale and use of the China RevUp Program.

In addition to reaching a verdict on the parties' claims, the jury made specific findings of fact by answering a series of special interrogatories. Those findings of fact are as follows: (1) in the June 7, 1995 letter agreement, the parties intended that the China RevUp Program, including the copyright, would become the property of Price Waterhouse upon completion of the project; (2) the RevUp 32 project, as contemplated by the letter agreement, was completed; (3) the Sky Programmers were the sole and exclusive authors of the enhancements in the Pre-China RevUp Program made in China; (4) Yang was a Price Waterhouse employee while she was in China in 1995; (5) Yang was not a joint author of any portion

of the China RevUp Program; (6) Liu did not knowingly fail to advise the Copyright Office of Price Waterhouse's claim of ownership in the China RevUp Program when she applied for its copyright; (7) Patrick McNerthy's Post-China RevUp Program is not substantially similar to the China RevUp 32; (8) the three employment contracts Yang signed in 1992, 1994, and 1996 obligated Yang to use her best efforts to protect Price Waterhouse's copyright interests in the China RevUp Program while she was employed by Price Waterhouse; (9) Yang did not use her best efforts to protect Price Waterhouse's copyright interests in the China RevUp Program while she was employed by Price Waterhouse; and (10) some part of the China RevUp is a "work of authorship, improvement or idea"--as defined in Yang's employment agreements--that Yang conceived or made in the course of her employment with Price Waterhouse, whether alone or with others.

ANALYSIS

I. *Price Waterhouse & CLR's Motion for a Remittitur*

The jury found that Price Waterhouse breached its contract with Yang, and awarded her $600,000 in damages on that claim. Price Waterhouse argues that the jury's award must be reduced because it is not supported by the evidence.

This case is controlled by Illinois law. In Illinois, "the evidence need only to tend to show a basis for the computation of damages with a fair degree of probability." *Medcom Holding Co. v. Baxter Travenol Lab., Inc.*, 106 F.3d 1388, 1398 (7th Cir.1997). A trial judge may vacate a jury's verdict for excessiveness only when the award was "monstrously excessive" or the award has "no rational connection to the evidence." *DeBiasio v. Illinois Cent. R.R.*, 52 F.3d 678, 687 (7th Cir.1995).

Here, the only evidence Yang submitted in support of her breach of contract damages was the invoice to Price Waterhouse for $264,000. Yang's counsel requested only $264,000 in his closing argument, explaining that Yang was entitled to

$1,000 for every percentage point she sped up the RevUp Program, and that it was uncontested that Yang sped up the program by 264 per-cent. Finally, Yang consented to the $264,000 figure in the jury instructions, which stated: "Ms. Yang claims that Price Waterhouse breached its contract with her and seeks $264,000 for the defendants alleged failure to pay."

Nevertheless, Yang argues that the jury could rationally find that she was entitled to additional money because of evidence of tortious conduct by Price Waterhouse found in the record. Yang's "tortious conduct" argument is without merit for two reasons. First, it is not sanctioned by Illinois law. Second, even if it were a viable theory under Illinois law, Yang has not alleged, much less pointed to facts in the record, which prove that Price Waterhouse committed any tort against her.

Yang argues that "[w]hile damages in excess of the claimed contractual injury are not generally allowed under Illinois law, exceptions are permitted where evidence of tortious conduct is presented at trial." In support, Yang cites *Hardin, Rodriguez & Boivin Anesthesiologists, Ltd. v. Paradigm Ins. Co.*, 962 F.2d 628, 638-39 (7th Cir.1992). However, that case does not stand for the proposition for which Yang cites it. Instead, *Hardin* concerns the exception under which punitive damages are available on a contract claim--where the defendant is also found to have committed an independent tort, separate from the breach of contract.

Even if this case fell within the *Hardin* reasoning, however, the only tort Yang comes close to alleging is tortious interference with contract: "PW/CLR's failure to pay the specified amount to Yang 30 days after testing was completed on the China RevUp Program tortiously interfered with the contractual relationship between Yang and the [Sky Company]." (Yang's Mem. in Opp. to PW/CLR's Motion for a Remittitur.) Despite that assertion, Yang does not even try to argue that Price Waterhouse committed all the elements of

tortious interference with contract, i.e., that Price Waterhouse "completed" the tort, rather than just behaved poorly. Even if Yang could show that Price Waterhouse engaged in tortious interference with contract, her claim fails because, unlike in *Hardin,* where the plaintiff alleged and the jury was instructed on the elements of common law fraud, Yang never alleged tortious interference with contract, and the jury was never instructed on its elements. There is thus no basis upon which to conclude that the damages awarded over and above the contract amount were punitive.

The remainder of Yang's argument is that the contract damages may be enhanced because of Price Waterhouse's generally unpleasant behavior. Specifically, Yang argues that Price Waterhouse harmed her ability to perform other projects with the Sky Programmers, threatened to "ruin her" if she sued Price Waterhouse, and unlawfully conditioned her vacation pay on a waiver of contract claims against Price Waterhouse. Presumably, Yang's argument is that such behavior may serve to enhance the damages on a contract claim even if it does not rise to the level of an independent tort. Not surprisingly, Yang cites no case law in support of this position. Nor could she, because even *Hardin* recognizes only that a plaintiff may collect damages above the contract amount if she proves that the defendants engaged in a separate, independent tort. Not only does Yang not argue that Price Waterhouse's acts constitute separate, independent torts, Yang did not ever allege that the acts rose to the level of recognized torts of intentional infliction of emotional distress, assault, or fraud.

In addition, plaintiff consented to the $264,000 figure by not objecting to its inclusion in the jury instructions. Under the law of the Seventh Circuit, "[w]hen parties do not object to jury instructions, these instructions generally become the law of the case." *Jabat, Inc. v. Smith,* 201 F.3d 852, 857 (7th Cir.2000). Once the law of the case is settled, the parties can only argue that the jury did not properly apply the instructions

to the facts. *Id.* By permitting an instruction to be given which clearly limited Yang's contract damages to $264,000, Yang waived her right to claim that damages in excess of the request were warranted. *See id.*

For these reasons, plaintiff has not alleged, much less shown that the jury could have rationally concluded, that Price Waterhouse engaged in any torts separate and independent of the contract claim. In the language of the Seventh Circuit, there was "no rational connection" between the jury's $600,000 award (or any amount greater than $264,000) and the evidence presented on Yang's contract claim. Accordingly, Price Waterhouse's motion for a remittitur must be granted.

II. *Liu and Yang's Renewed Motions for Judgment as a Matter of Law, Or, in the Alternative, for a New Trial*

A. *Liu's Infringement on Price Waterhouse's Copyright*

As noted, the jury found that Price Waterhouse, not the Sky Programmers or Liu, held a valid copyright in the China Rev-Up Program. The jury also found that Liu infringed that copyright and awarded Price Waterhouse $200 for the infringement. Liu and Yang argue that no reasonable jury could have found that Price Waterhouse owned the rights in the China Program or that Liu infringed upon those rights by claiming a copyright in the derivative work.

1. *Ownership of the Copyright Rights in the China RevUp Program*

Liu and Yang argue that they are entitled to judgment as a matter of law because the Sky Programmers were authorized to prepare the China RevUp Program, a derivative work, and it is undisputed that the Sky Programmers never transferred ownership of the copyright to the China RevUp to Price Waterhouse. Liu and Yang reason that because the Sky Programmers lawfully prepared the derivative program, they were the authors, and therefore holders of the copyright under § 103(a) of the Copyright Act. 17 U.S.C. § 103(a). Because

ownership vests initially with the Sky Programmers, Liu and Yang argue, a written assignment was necessary under § 204 of the Copyright Act to transfer copyright rights in the China RevUp Program to Price Waterhouse. 17 U.S.C. § 204. Liu and Yang argue that while Yang and Price Waterhouse may have agreed that the China RevUp Program would become the property of Price Waterhouse upon completion of the project, the Sky Programmers, as authors of the derivative work, never agreed to assign their copyright in the program to Price Waterhouse. Liu and Yang continue that Yang could not have assigned the copyright on the Sky Programmers' behalf because there was no evidence presented that Yang was the agent of the Sky Programmers

Price Waterhouse counters by arguing that there is no need to resort to the Copyright Act to determine whether there was a proper transfer of the copyright from the Sky Programmers to Price Waterhouse because, as the jury found, under the June 7, 1995 letter agreement, the Sky Programmers never had any rights in the China RevUp Program to transfer. The jury found that under the June 7, 1995 letter agreement pursuant to which Yang recruited the Sky Programmers to enhance the RevUp Program, the copyright in the derivative work was to become the property of Price Waterhouse upon completion of the project. The jury also found that the project was completed. Accordingly, Price Waterhouse argues, the China RevUp Program was the property of Price Waterhouse as soon as the project was competed, and there was no need for the Sky Programmers to transfer ownership in the China RevUp Program to Price Waterhouse.

The heart of the parties argument centers upon what is required under the Copyright Act to vest ownership of copyright rights in a derivative work with a party other than the work's author. Price Waterhouse views the June 7, 1995 letter agreement as a license to prepare a derivative work which must be interpreted, just as any other contract, to determine

the intention of the parties regarding the respective rights of the author of the underlying work and the author of the derivative work. Under this view, owners of the right to prepare derivative works may limit and condition the author of the derivative work's right to use the derivative work, including limiting the right to claim a copyright in the derivative work, even if the license is not signed by the author of the derivative work and even if the license is not explicit in prohibiting the author of the derivative work from claiming a copyright in the derivative work. Liu and Yang, on the other hand, maintain that the rights to a derivative work may not vest in nor transfer to anyone other than the author of the derivative work without an explicit assignment of the copyright by the authors of the derivative work (or their agent) in accordance with § 204 of the Copyright Act.

Under copyright law, the holder of copyright rights in an original work may set conditions on any license to prepare a derivative work. It is an "axiomatic copyright principle that a person may exploit only such copyrighted literary material as he either owns or is licensed to use." *Stewart v. Abend*, 495 U.S. 207, 223, 110 S.Ct. 1750, 109 L.Ed.2d 184 (1990). It is also undisputed that a "use" of copyrighted material which exceeds the scope of the license constitutes an infringement. *NLFC, Inc. v. Devcom Mid-America, Inc.*, 45 F.3d 231, 235 n. 5 (7th Cir.1995). Accordingly, Price Waterhouse could have limited various uses of the derivative program, and the Sky Programmers and Liu would have violated the license, thereby infringing Price Waterhouse's copyright in the Pre-China Program, if they engaged in any "uses" not allowed by the license. The questions, then, are what is required to prohibit the author of a derivative work from claiming a copyright in the work, and whether claiming a copyright in a work is a "use" within the meaning of the law. Liu and Yang, not surprisingly, argue that a license or other contract must be explicit in assigning rights in the derivative work to a party other than the author, and that claiming a copyright in a work

is not a "use" within the meaning of the law. Price Waterhouse counters that prohibitions on claiming a copyright in a derivative work may be established just like any other limitation on a use of a work, and that claiming a copyright is a use like any other.

Plaintiffs argue that, under copyright law, the jury improperly looked to the letter agreement to determine what "the parties" intended, because only an explicit assignment of the Sky Programmers' rights signed by the Sky Programmers would be sufficient to vest ownership of the copyright in Price Waterhouse. The bulk of the authority, however, does not support Liu and Yang's position. The cases cited by their counsel all concern situations under which one party undisputedly authored and held ownership rights in the work, and the issue was whether that party had transferred those rights to another. *See, e.g., Effects Associates, Inc. v. Cohen,* 908 F.2d 555, 556- 57 (9th Cir.1990) (explaining that work at issue was not a work made for hire, so that copyright vested in the author in the absence of an agreement to the contrary); *Schiller & Schmidt, Inc. v. Nordisco Corp.,* 969 F.2d 410, 412 (7th Cir.1992) (same). Here, by contrast, the dispute turns upon which party was to initially hold the rights in the derivative work.[1]

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[1] The difference between the work for hire doctrine, under which the party creating the work (if not an employee) must explicitly assign his or her rights to the party commissioning its creation, 17 U.S.C. § 201(b), and derivative work licenses, is that the author of a derivative work must get permission to create the derivative work. A derivative work, by definition, is a work based upon a preexisting work, 17 U.S.C. § 101, and the author of a derivative work must either have or acquire the right to use the original preexisting work. A work for hire, by contrast, is composed of original material and could be independently created and copyrighted by the author. As such, it makes sense to require an explicit transfer of ownership in works made for hire to protect the true author's rights in his or her work. A derivative work author, by contrast, is by definition working within the confines of his or her license to create that work and is bound not to infringe the rights of the original work's owner by exceeding the

The bulk of the authority suggests that a license may prevent an author of a derivative work from claiming a copyright in that work, such that claiming a copyright is an infringement of the original work's rights. The bulk of the authority also suggests that such a license need not explicitly state that the copyright in the derivative work will be the property of the original work's owner, and need not be signed by the author of the derivative work in order to be effective. *See, e.g., Gracen v. Bradford Exchange,* 698 F.2d 300, 303 (7th Cir.1983) ("Even if she was authorized to exhibit her derivative works, she *may not have been* authorized to copyright them. Bradford was licensed to use MGM's copyright in its series of collectors' plates but not to copyright the derivative works thus created.") (emphasis added).[2] Even *Nimmer on Copyrights,* which questioned the scope of *Gracen*'s dicta, noted "[o]f course, a license may contractually preclude the licensee from obtaining a copyright in a licensed derivative work." 1 *Nimmer on Copyright* § 3.06 at 3-34.23 n. 14 (Perm. Ed.1997). Expanding on this reasoning, the most recent version of *Nimmer* states "if the pertinent agreement be-

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scope of that license. In the derivative work context, unlike the work for hire context, there are competing interests of two different authors to consider: the original work owner, whose ability to prepare and authorize others to prepare derivative works may be harmed by allowing derivative work authors to copyright the derivative works, and the derivative work authors, who have an interest in protecting their own rights in the new material they contribute to the original work, just like all other authors.

[2] The scope of *Gracen* 's dicta has been explored at length by this court in addressing defendants' motions for summary judgment. In those motions, this court rejected defendants' argument that the authorized author of a derivative work must have explicit permission from the owner of the original work to copyright the derivative work. This court stands by those rulings, but *Gracen* certainly does suggest that a license to prepare a derivative work may or may not include the right to claim a copyright in the derivative work. If a license provides that the derivative work, including its copyright, shall become the property of the original work's author, as the jury found here, then the license does not authorize the author of a derivative work to claim a copyright in that work.

tween the parties affirmatively bars the licensee from obtaining copyright protection even in a licensed derivative work, that contractual provision would appear to govern." 1 *Nimmer on Copyright* § 3.06 at 3-34.26 (Perm. Ed.2000).

This case is precisely in line with those situations contemplated by the *Nimmer* treatise and the *Gracen* court. The June 7, 1995 letter gave Yang and the Sky Programmers a license to prepare a derivative work. That license was ambiguous as to who would have the right to copyright the derivative work. Liu and Yang may be correct that if the license had said nothing at all about copyrights in the derivative work, copyright would have vested in the Sky Programmers as the authors of that derivative work. The license did speak to ownership rights, however, and the jury resolved the ambiguity in the license by finding that the copyright in the derivative work was to vest with Price Waterhouse. As such, the jury found, consistent with *Nimmer* 's hypothetical, that the pertinent agreement between these parties provided that Price Waterhouse would hold copyright protection in the derivative work, and thus barred the Sky Programmers or Liu from claiming that protection. That contractual agreement as found by the jury trumps the Copyright Act's presumptive vesting of copyright protection with the author of the derivative work.

In this sense, the jury found that the parties intended to alter the default rules of copyright ownership by contract just as the Copyright Act alters the default rules for works made for hire. As a work made for hire vests copyright with the person who authorizes the work, rather than the usual creator of the work, so too here the parties altered the default rules of the Act with a contract to prepare a derivative work, rather than with an employment contract. This court sees no reason why factfinders should be permitted to look to extrinsic evidence to determine if a work was "for hire" under an employment contract, but not be permitted to consider extrinsic evidence to determine if a license provided that a copyright in

a derivative work was to vest with a party other than the author. For example, had Yang been an author of the China Program, the jury would have had to determine whether Yang was an employee working within the scope of her employment with Price Waterhouse at the time she created it.[3] In making that determination, the jury would consider the intent behind the June 7, 1995 letter agreement, among other things. This court finds nothing in the plain language or the policies of the Copyright Act which suggests that a different result should occur merely because, as contemplated by the letter agreement, Yang found third parties to create the derivative work. While the Sky Programmers were not parties to the license, the letter agreement license still sets the parties' respective ownership rights and obligations, and a jury was properly permitted to consider extrinsic evidence to interpret its meaning.

This court also rejects Liu and Yang's argument that limiting the right to claim a copyright in a derivative work is somehow different, or requires a clearer statement of intent, than other limitations on "uses" of a copyrighted work. This court finds Liu and Yang's argument that the letter agreement was sufficient to authorize the Sky Programmers to prepare the derivative work, even though the Sky Programmers did not sign it, but was not sufficient to limit the Sky Programmers' rights to claim a copyright in the derivative work to be internally inconsistent. A license may limit any number of statutory rights in a work, and a party may infringe on that license even without knowledge that the license exists. *See NLFC, Inc. v. Devcom Mid- America, Inc.*, 45 F.3d 231, 235 n. 5 (7th Cir.1995) (exceeding scope of license is infringement); 17 U.S.C. § 504 (providing remedies for innocent

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[3] The jury did find that Yang was an employee of Price Waterhouse, but the jury also found that she was not a joint author of the China RevUp Program, and there was no finding or evidence that Yang was an agent for the Sky Programers, the authors of the derivative China RevUp Program, so the work for hire doctrine does not come into play in this case.

infringement). While the Copyright Act makes authors of derivative works the presumptive owners of copyright rights in their contributions, it also allows parties to adjust those rights by contract. Here, the jury found that the parties to the letter agreement did just that--agreed that Price Waterhouse would hold the copyright in the derivative work. Because of the ambiguity in the letter agreement, it was necessary and proper for the jury to consider "the parties" intent in entering into the letter agreement in order to determine the respective rights of Price Waterhouse, Yang, and the subsequent authors of the derivative work, even though those subsequent authors, the Sky Programmers, did not sign the letter agreement.

2. *Liu's Infringement of Price Waterhouse's Copyright in the China RevUp Program*

Liu argues that no rational jury could have found that she infringed on Price Waterhouse's copyright rights for three reasons: (1) the only "use" Liu made of the China RevUp Program was to file a copyright application, (2) Price Waterhouse failed to meet the statutory prerequisites for bringing an infringement action by failing to produce a valid copyright registration or evidence of an attempt to obtain copyright registrations for the pre-China and China RevUp Programs at trial, and (3) statutory damages cannot be awarded for infringement unless the copyright was registered before the infringement occurred.

Liu's infringement argument is easily disposed of. As noted above, any use which exceeds the scope of a license constitutes infringement. *See NLFC, Inc. v. Devcom Mid-America, Inc.*, 45 F.3d 231, 235 n. 5 (7th Cir.1995). Here, the jury found that Price Waterhouse, and only Price Waterhouse, was to own the copyright in the derivative work. A necessary corollary to that finding is that the Sky Programmers, and therefore Liu, did not have the right to claim a copyright in the work. By registering the copyright, Liu exceeded the scope of the derivative work license and therefore infringed Price Waterhouse's copyright.

The Sky Programmers can be held liable for infringement even though they were not parties to the license. Even innocent parties may be liable for infringement, including exceeding the scope of a license. *See* 17 U.S.C. § 504 (providing different remedies for willful and innocent infringements); 17 U.S.C. § 501 (providing that "anyone who violates any of the exclusive rights of the copyright owner ... is an infringer of the copyright or right of the author, as the case may be"). An innocent party, by definition, is not aware of limitations on use included within a license. The Sky Programmers' and Liu's claims of ownership in the derivative China RevUp Program was not authorized by the license under which it was created because that license, per the jury's findings, provided that ownership would vest in Price Waterhouse. As such, Liu's act of claiming a copyright in the China Program on behalf of the Sky Programmers was beyond the scope of the letter agreement license and therefore and infringement, even if an innocent one.

As for the copyright registration claims, Liu argues that Price Waterhouse's failure to produce a copyright registration form for the Pre-China and China Programs at trial is fatal the copyright infringement claim filed by Price Waterhouse against Liu.

The Copyright Act provides that "no action for infringement of the copyright in any United States work shall be instituted until registration of the copyright claim is made in accordance with this title." 17 U.S.C. § 411. No registration is necessary for a derivative work, so long as the underlying original work is registered. *Montgomery v. Noga,* 168 F.3d 1282, 1292-93 (plaintiff satisfied requirements of § 411 as to derivative work by registering original work because protected elements of the original registered work were present in the derivative work); 2 Nimmer on Copyrights § 7.16[B][2], 7-165 (Perm. Ed.2000).

Here, Liu argues that *Noga* is of no use to Price Waterhouse because it failed to present evidence of the registration of the Pre-China RevUp Program.[4] However, Liu's own copyright registration of the Post- China Program identifies Price Waterhouse's Pre-China Programs, registration numbers TX4045760 and TX4057660, as underlying works from which the China RevUp Program was derived. Liu argues that their identification of the Price Waterhouse registration numbers does not alleviate Price Waterhouse's burden to prove the elements of their claim, including a registered copyright in the Pre-China Program. However, neither Yang nor Liu ever disputed, and all parties proceeded at trial under the assumption that, Price Waterhouse held a valid copyright in the Pre-China version of the program. As such, Liu may not raise this issue for the first time in a post-trial argument; it has been waived by the failure to object at trial or to raise the issue in a Rule 50(a)(1) motion for judgment as a matter of law. (Fed.R.Civ.P. 50(a))(2) ("Such a motion shall specify the judgment sought and the law and the facts on which the moving party is entitled to the judgment."). Liu and Yang correctly notes that they have always disputed that Price Waterhouse and CLR hold a valid registered copyright in the China RevUp Program, but Price Waterhouse's undisputed registration of the underlying original work, the Pre-China RevUp Program, is sufficient basis upon which to maintain an infringement action both upon the Pre-China Program and the China Program.[5] *See Noga,* 168 F.3d at 1292-93.

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[4] Liu also argues that *Noga* is inapposite because they only claim a copyright in the new and original aspects of the China Program, not the parts which came from the underlying Pre-China Program. In support, Liu cites evidence of the differences between the two programs. Liu ignores similarities between the two programs. Regardless of the programs' differences, it is undisputed that the China RevUp Program also contains Price Waterhouse's protected expression from the Pre-China Program.

[5] While both sides devoted much of their argument to whether Price Waterhouse had met the statutory prerequisite to filing an infringement

In addition, Liu's act of registering a copyright in the China RevUp Program was sufficient to allow Price Waterhouse's infringement claim to proceed. The plain language of § 411 speaks in the passive voice. It requires that a copyright in the work be registered, but does not require the person claiming the copyright or infringement thereof to register it. *See Vapac Music Pub'g, Inc. v. Tuff 'N' Rumble Mgnt.*, No. 99 CV 10656 JGK, 2000 WL 1006257, at *2 (S.D.N.Y. July 19, 2000) (§ 411 does not require registration by party bringing infringement claim). Here, both the Pre-China RevUp Program and the China Program have indisputably "been registered." As such, § 411 is satisfied and Price Waterhouse and Liu met this statutory prerequisite to filing their respective infringement claims.

Liu and Yang also argue that, even if defendants could maintain an action for infringement under § 411, they cannot recover statutory damages under § 412 because they presented no evidence that copyright in the China RevUp Program was registered before the infringement occurred. Section 412 of the Copyright Act mandates that no award of statutory damages or of attorney's fees shall be made for any infringement of copyright in an unpublished work commenced before the effective date of its registration. 17 U.S.C. § 412. As such, the Pre-China Program must have been registered before Liu's infringement occurred in order for Price Waterhouse and CLR to recover statutory damages for infringement.

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action on the China Program, it is irrelevant whether Price Waterhouse had a registered copyright in the China Program because Price Waterhouse prevailed in its copyright claim by proving that Liu infringed its rights in the Pre-China Program. By exceeding the scope of the license to prepare a derivative work, as thejury found, Liu infringed on Price Waterhouse's rights in the Pre-China Program, regardless of any infringement of Price Waterhouse's rights in the derivative China Program. The China Program is relevant as an infringing work as much as it is a work which was infringed upon.

This court finds that the requirements of § 412 have been met for the same reasons the requirements of § 411 have been met. Liu and Yang have not, until now, suggested that Price Waterhouse did not meet its burden of showing a registered copyright in the Pre-China Program. The evidence made clear that registration of the Pre-China Program preceded Liu's infringement. An act of infringement alleged by Price Waterhouse against Liu was in registering a copyright in the China Program. That registration listed Price Waterhouse's registration numbers for the Pre-China Program. As such, it is clear that the Pre-China Program was registered before Liu claimed a copyright in the China Program. Having shown a registered copyright in the underlying work which pre-dated the infringement, Price Waterhouse and CLR may maintain an action on and recover statutory damages for the resulting derivative work which contains much of the same protectable expression as the underlying work.

For all the reasons stated, the jury was rational in concluding that Price Waterhouse held a valid registered copyright in the Pre-China RevUp Program and in the China RevUp Program and that Liu infringed those rights by exceeding the scope of the license which authorized Yang and the Sky Programmers to develop the derivative work. Liu and Yang's motion for judgment as a matter of law or for a new trial on Price Waterhouse and CLR's copyright infringement counterclaim and cross claim must therefore be denied.

B. *Liu's Copyright Infringement Claim*

For the same reasons Liu argues no rational jury could have found that Liu infringed upon Price Waterhouse's copyright in the China RevUp Program, they also argue that Liu is entitled to judgement as a matter of law on her copyright claim. Liu and Yang argue that copyright rights in the China Program vested with the Sky Programmers as authors of the derivative work, who then validly transferred those rights to Liu. As such, Liu argues, Price Waterhouse violated the Sky Programmers' copyright as a matter of law by selling the

China RevUp Program to CLR. Liu and Yang's argument fails for the same reason as their first--the jury found that the copyright in the derivative China Program was to vest in Price Waterhouse, not the Sky Programmers As such, the Sky Programmers had no copyright rights in the China RevUp Program to transfer to Liu. Because, under the jury's factual findings, Liu has no valid copyright rights in the program, her copyright claim fails.

The jury's finding that the Sky Programmers held no rights in the China Program disposes of two of plaintiffs' arguments brought in this motion. First, Liu is not entitled to any profits from Price Waterhouse's sale of the China Program to CLR. Second, the McNerthny Post-China RevUp Program could not have infringed Liu's copyright in the China Program, regardless of similarity, because she had no copyright rights in the China Program. Plaintiffs' motion for judgment as a matter of law or for a new trial on Liu's copyright infringement must be denied.

C. *Yang's Contributory Infringement*

Yang argues that the jury's finding that Yang contributed to Liu's infringement is erroneous for the same reasons that the jury's finding that Liu violated Price Waterhouse's copyright is erroneous. This court has already rejected that argument and found that the jury could have reasonably concluded that Liu violated Price Waterhouse's copyright rights. There was also sufficient evidence to support the jury's conclusion that Yang contributed to Liu's violation of Price Waterhouse's rights. Accordingly, there is no basis upon which to grant judgment as a matter of law or a new trial on Price Waterhouse and CLR's contributory infringement claim against Yang.

D. *Yang's Breach of Contact and Fiduciary Duty*

The jury found that Yang beached her contractual and fiduciary duties to Price Waterhouse by failing to protect Price Waterhouse's copyright rights in the Pre-China RevUp Pro-

gram. Again, the basis for Yang's argument is that Price Waterhouse had no rights to protect, such that Yang could not have failed to protect Price Waterhouse's rights. This court has already rejected that argument. Price Waterhouse did have copyright rights in the China Program, and there was sufficient evidence to show that Yang was bound by fiduciary duties as a Price Waterhouse employee and contract duties under her employment contracts to protect those rights, but failed to do so. Accordingly, plaintiffs motion for judgment as a matter of law or new trial on Yang's breach of fiduciary and contract duties is denied.

E. *Yang's Conversion of Property*

The jury found that Yang converted Price Waterhouse's property by failing to turn over the source code for the Pre-China RevUp Program and the China Program. Yang argues that she could not be found liable for conversion because Price Waterhouse refused to pay her for the improvements, and thus breached its contract with her. However, the jury could have reasonably found, based on the evidence, that Yang had no right to hold on to the source code, and the reason Price Waterhouse did not pay her is because she refused to turn over the program, not vice-versa. Thus, Yang's motion for judgment as a matter of law and for a new trial on the conversion count must be denied as well.

III. *Yang's Motion for an Award of Prejudgment Interest*

Finally, Yang moves for an award of prejudgment interest on the award of $600,000 in damages for her breach of contract claim, which this court has now reduced to $264,000. Yang argues that she is entitled to prejudgment interest because "the evidence at trial established beyond a doubt that PW/CLR acknowledged, in November-December 1995, this amount of money was due and owing, but failed to pay any monies to Yang for the identified period of time," and the withholding of money was vexatious.

Under the Illinois Interest Act, a creditor may be able to receive interest at the rate of five percent per annum for all monies after they become due on money withheld by an unreasonable and vexatious delay of payment. 815 ILCS § 205/2. However, "[i]nterest is not awarded on money that may be found due, if the person withholding payment has done so in good faith, because of a genuine and reasonable dispute." *General Dynamics Corp. v. Zion State Bank & Trust Co.*, 86 Ill.2d 135, 56 Ill.Dec. 51, 427 N.E.2d 131, 134 (1981); *see also Empire Gas Corp. v. American Bakeries Co.*, 840 F.2d 1333, 1342 (7th Cir.1988).

This court finds that Price Waterhouse withheld payment to Liu because of a genuine and reasonable dispute, and was not unreasonable or vexatious. It is undisputed that Price Waterhouse was to pay Yang $1,000 for each percentage point by which she sped up the RevUp Program, and that even Price Waterhouse's measurements showed that the improved China Program was at least 250% faster. However, the parties disputed other parts of the contract, and the jury ultimately found that Yang breached her contract with Price Waterhouse, as well. Price Waterhouse did not act vexatiously in demanding that Yang recognize its rights in the China RevUp Program before tendering payment. Yang's motion for prejudgment interest is therefore DENIED.

CONCLUSION

For all the reasons stated, plaintiff's motion for judgment as a matter of law under Fed. R. Civ 50(b) or for a new trial under Rule 59 is DENIED in its entirety. Defendants' motion for remittitur is GRANTED. The jury's verdict on all claims shall stand. The jury's award of damages to Yang on her breach of contract claim against Price Waterhouse is REDUCED from $600,000 to $264,000. Yang's motion for prejudgment interest is DENIED.

APPENDIX E

UNITED STATES COURT OF APPEALS
For the Seventh Circuit
Chicago, Illinois 60604
October 17, 2002
Before

Hon. HARLINGTON WOOD, JR., *Circuit Judge*
Hon. MICHAEL S. KANNE, *Circuit Judge*
Hon. ILANA DIAMOND ROVNER, *Circuit Judge*

No. 01-1744 and 01-2119

XU LIU
Plaintiff-Appellant,
v.
PRICE WATERHOUSE LLP and COMPUTER LANGUAGE RESEARCH, INC.,
Defendants / Third-Party Plaintiffs-Appellees,
v.
XIAOMEI YANG
Third-Party Defendant-Appellant.

Appeals from the United States District Court for the Northern District of Illinois, Eastern Division.

No. 97 C 3093

James F. Holderman, *Judge.*

ORDER

On consideration of the petition for rehearing and petition for rehearing *en banc*, no judge in active service has requested a vote on the petition for rehearing *en banc* and all of the judges of the original panel have voted to deny rehearing. It is, therefore, ORDERED that rehearing and rehearing *en banc* are DENIED.

APPENDIX F

UNITED STATES CODE ANNOTATED
TITLE 17. COPYRIGHTS

§ 101. Definitions

Except as otherwise provided in this title, as used in this title, the following terms and their variant forms mean the following:

* * *

A work is "created" when it is fixed in a copy or phonorecord for the first time; where a work is prepared over a period of time, the portion of it that has been fixed at any particular time constitutes the work as of that time, and where the work has been prepared in different versions, each version constitutes a separate work.

A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work".

* * *

A "transfer of copyright ownership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

* * *

A "work made for hire" is--

(1) a work prepared by an employee within the scope of his or her employment; or

(2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a "supplementary work" is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an "instructional text" is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.

In determining whether any work is eligible to be considered a work made for hire under paragraph (2), neither the amendment contained in section 1011(d) of the Intellectual Property and Communications Omnibus Reform Act of 1999, as enacted by section 1000(a)(9) of Public Law 106-113, nor the deletion of the words added by that amendment--

(A) shall be considered or otherwise given any legal significance, or

(B) shall be interpreted to indicate congressional approval or disapproval of, or acquiescence in, any judicial determination, by the courts or the Copyright Office. Paragraph (2) shall be interpreted as if both section

2(a)(1) of the Work Made For Hire and Copyright Corrections Act of 2000 and section 1011(d) of the Intellectual Property and Communications Omnibus Reform Act of 1999, as enacted by section 1000(a)(9) of Public Law 106-113, were never enacted, and without regard to any inaction or awareness by the Congress at any time of any judicial determinations.

§ 103. Subject matter of copyright: Compilations and derivative works

(a) The subject matter of copyright as specified by section 102 includes compilations and derivative works, but protection for a work employing preexisting material in which copyright subsists does not extend to any part of the work in which such material has been used unlawfully.

(b) The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.

§106. Exclusive rights in copyrighted works

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

§ 201. Ownership of copyright

(a) Initial Ownership.--Copyright in a work protected under this title vests initially in the author or authors of the work. The authors of a joint work are coowners of copyright in the work.

(b) Works Made for Hire.--In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.

(c) Contributions to Collective Works.--Copyright in each separate contribution to a collective work is distinct from copyright in the collective work as a whole, and vests initially in the author of the contribution. In the absence of an express transfer of the copyright or of any rights under it, the

owner of copyright in the collective work is presumed to have acquired only the privilege of reproducing and distributing the contribution as part of that particular collective work, any revision of that collective work, and any later collective work in the same series.

(d) Transfer of Ownership.--

(1) The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.

(2) Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred as provided by clause (1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.

(e) Involuntary Transfer.--When an individual author's ownership of a copyright, or of any of the exclusive rights under a copyright, has not previously been transferred voluntarily by that individual author, no action by any governmental body or other official or organization purporting to seize, expropriate, transfer, or exercise rights of ownership with respect to the copyright, or any of the exclusive rights under a copyright, shall be given effect under this title, except as provided under title 11.

§ 202. Ownership of copyright as distinct from ownership of material object

Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the

object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.

§ 204. Execution of transfers of copyright ownership

(a) A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.

(b) A certificate of acknowledgement is not required for the validity of a transfer, but is prima facie evidence of the execution of the transfer if--

(1) in the case of a transfer executed in the United States, the certificate is issued by a person authorized to administer oaths within the United States; or

(2) in the case of a transfer executed in a foreign country, the certificate is issued by a diplomatic or consular officer of the United States, or by a person authorized to administer oaths whose authority is proved by a certificate of such an officer.

§408. Copyright registration in general (EXCERPT)

(a) Registration Permissive.--At any time during the subsistence of the first term of copyright in any published or unpublished work in which the copyright was secured before January 1, 1978, and during the subsistence of any copyright secured on or after that date, the owner of copyright or of any exclusive right in the work may obtain registration of the copyright claim by delivering to the Copyright Office the deposit specified by this section, together with the application

and fee specified by sections 409 and 708. Such registration is not a condition of copyright protection.

* * *

§ 409. Application for copyright registration

The application for copyright registration shall be made on a form prescribed by the Register of Copyrights and shall include--

(1) the name and address of the copyright claimant;

(2) in the case of a work other than an anonymous or pseudonymous work, the name and nationality or domicile of the author or authors, and, if one or more of the authors is dead, the dates of their deaths;

(3) if the work is anonymous or pseudonymous, the nationality or domicile of the author or authors;

(4) in the case of a work made for hire, a statement to this effect;

(5) if the copyright claimant is not the author, a brief statement of how the claimant obtained ownership of the copyright;

(6) the title of the work, together with any previous or alternative titles under which the work can be identified;

(7) the year in which creation of the work was completed;

(8) if the work has been published, the date and nation of its first publication;

(9) in the case of a compilation or derivative work, an identification of any preexisting work or works that it is based on or incorporates, and a brief, general statement of the additional material covered by the copyright claim being registered;

(10) in the case of a published work containing material of which copies are required by section 601 to be manufactured

in the United States, the names of the persons or organizations who performed the processes specified by subsection (c) of section 601 with respect to that material, and the places where those processes were performed; and

(11) any other information regarded by the Register of Copyrights as bearing upon the preparation or identification of the work or the existence, ownership, or duration of the copyright.

If an application is submitted for the renewed and extended term provided for in section 304(a)(3)(A) and an original term registration has not been made, the Register may request information with respect to the existence, ownership, or duration of the copyright for the original term.

§ 410. Registration of claim and issuance of certificate

(a) When, after examination, the Register of Copyrights determines that, in accordance with the provisions of this title, the material deposited constitutes copyrightable subject matter and that the other legal and formal requirements of this title have been met, the Register shall register the claim and issue to the applicant a certificate of registration under the seal of the Copyright Office. The certificate shall contain the information given in the application, together with the number and effective date of the registration.

(b) In any case in which the Register of Copyrights determines that, in accordance with the provisions of this title, the material deposited does not constitute copyrightable subject matter or that the claim is invalid for any other reason, the Register shall refuse registration and shall notify the applicant in writing of the reasons for such refusal.

(c) In any judicial proceedings the certificate of a registration made before or within five years after first publication of

the work shall constitute prima facie evidence of the validity of the copyright and of the facts stated in the certificate. The evidentiary weight to be accorded the certificate of a registration made thereafter shall be within the discretion of the court.

(d) The effective date of a copyright registration is the day on which an application, deposit, and fee, which are later determined by the Register of Copyrights or by a court of competent jurisdiction to be acceptable for registration, have all been received in the Copyright Office.

§ 411. Registration and infringement actions

(a) Except for an action brought for a violation of the rights of the author under section 106A(a), and subject to the provisions of subsection (b), no action for infringement of the copyright in any United States work shall be instituted until registration of the copyright claim has been made in accordance with this title. In any case, however, where the deposit, application, and fee required for registration have been delivered to the Copyright Office in proper form and registration has been refused, the applicant is entitled to institute an action for infringement if notice thereof, with a copy of the complaint, is served on the Register of Copyrights. The Register may, at his or her option, become a party to the action with respect to the issue of registrability of the copyright claim by entering an appearance within sixty days after such service, but the Register's failure to become a party shall not deprive the court of jurisdiction to determine that issue.

(b) In the case of a work consisting of sounds, images, or both, the first fixation of which is made simultaneously with its transmission, the copyright owner may, either before or after such fixation takes place, institute an action for infringement under section 501, fully subject to the remedies provided by sections 502 through 506 and sections 509 and

510, if, in accordance with requirements that the Register of Copyrights shall prescribe by regulation, the copyright owner--

(1) serves notice upon the infringer, not less than 48 hours before such fixation, identifying the work and the specific time and source of its first transmission, and declaring an intention to secure copyright in the work; and

(2) makes registration for the work, if required by subsection (a), within three months after its first transmission.

APPENDIX G

Price Waterhous LLP

June 7, 1995

Price Waterhouse LLP agrees to pay $25,000 for each 25% increase in TMS speed resulting from work on the RevUp. After the initial 25% improvement is achieved, payment will be made in $1,000 increments for each percentage increase. For example, if the speed is increased by 49%, Price Waterhouse will pay $49,000.

These speed improvements are based on the sample programs provided by the Tax Technology Group, Price Waterhouse LLP, United States. All timings will be based solely on improvements to RevUp. All work that is done must be compatible with TMS and work in a network environment. Also, the enhanced RevUp must work under WindowsR 3.1 using Win32sTM. Price Waterhouse will be given 30 days upon receipt of the object code to perform acceptance testing. If Price Waterhouse discovers problems, the consultants agree to resolve any and all issues on a timely basis. When issues are resolved, the consultants will give Price Waterhouse an additional 30 days upon receipt of the revised object code to perform acceptance testing. Upon successful completion of acceptance testing and verification of the speed increase, Price Waterhouse will pay the aforementioned amount. The speed increase will be determined based on the following formula:

Percent of Increase = (Old Time/New Time) – 1

Therefore, if a process took 100 seconds to complete and now takes 75 seconds, the increase in speed is 33%. The system

must be running in Windows 3.1 with Win32s whenever timings are taken. The machine used to test results will be a 486/66 with 16 megabytes of RAM. The Tax Technology Group will supply the source code for RevUp and Runtime. It is clearly understood that the source code is the sole property of Price Waterhouse and Price Waterhouse gives no authority, implied or otherwise, to distribute or copy this source code in any way. Upon completion of the project, ALL source code will be given back to Price Waterhouse.

If this project is successful, Price Waterhouse will consider the same consultants as strong candidates for future development projects.

Signed:
S/
Gerard P. Niles
Chief Development Officer/Senior Vice President Tax Technology Group

GPN/hnm

Supreme Court, U.S.
FILED
MAR 20 2003
OFFICE OF THE CLERK

No. 02-1213

In the Supreme Court of the United States

XU LIU and XIAOMEI YANG,

Petitioners,

v.

PRICE WATERHOUSE LLP and COMPUTER LANGUAGE RESEARCH, INC.,

Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit

BRIEF AMICUS CURIAE OF THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO IN SUPPORT OF NEITHER PARTY

E. LEONARD RUBIN
Counsel of Record
SACHNOFF & WEAVER, LTD.
30 South Wacker Drive
29th Floor
Chicago, Illinois 60606
(312) 207-6464

LINDA A. KUCZMA
President
Intellectual Property Law Association of Chicago
WALLENSTEIN & WAGNER, LTD.
311 South Wacker Drive
53rd Floor
Chicago, Illinois 60606
(312) 554-3300

Attorneys for Amicus Curiae

Dated: March 20, 2003

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PRELIMINARY STATEMENT

The Intellectual Property Law Association of Chicago ("IPLAC") submits this brief as Amicus Curiae in the above-captioned action in support of Petitioner's request for, and urges the granting of, certiorari, and is not in support of either party to the present action.[1]

STATEMENT OF CONSENT

IPLAC has received the consent of all parties to this proceeding to the filing of this Brief Amicus Curiae.

INTEREST OF THE AMICUS

IPLAC is the oldest intellectual property law association in the nation, having been founded in 1884. Its 850 or so members include law firm attorneys, sole practitioners, corporate attorneys, law school professors, law students, and others interested in the field of Intellectual Property.

IPLAC is a not-for-profit organization dedicated to the advancement of knowledge and ethics in the field of patent, trademark, copyright, trade secret, and associated fields of law. Among its chief aims are to inform and aid in the development and administration of these laws and to advance and encourage principles designed to maintain the usefulness of these laws insofar as the

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[1] Pursuant to Rule 37.6, IPLAC states that: (1) counsel to a party did not author this brief, in whole or in part; and (2) no person or entity other than IPLAC and its counsel made a monetary contribution to the preparation or submission of this brief.

United States citizenry is concerned. IPLAC also attempts to act as a guide to the practical effects of interpretation of intellectual property laws by various courts and by the United States Patent and Trademark Office (PTO). IPLAC further provides a medium for the exchange of views on intellectual property law between those practicing in the field and the public at large.

Consistent with its stated mission, IPLAC submits this brief in the hope that it may assist this Court in understanding the significant impact of the decision of the Seventh Circuit in this case on the copyright and business community, wholly apart from and without regard to the immediate interests of either party hereto. It is IPLAC's opinion that the decision below has created a conflict among the circuits in connection with interpretation of Federal Copyright Law, Title 17 U.S.C. Sec. 101 *et seq.* (the "Copyright Act") and more particularly with Sec. 204(a) of the Copyright Act, a section that has experienced a different interpretation in other circuits. Unless this interpretation is resolved by this Court through review of this decision, uncertainty over interpretation of U.S. copyright law will continue and proliferate, and those creators who believe they own the copyright in their works may find themselves bereft of their rights, depending on the Federal Circuit in which they reside.

SUMMARY OF ARGUMENT

Sec. 201 of the Copyright Act provides in subsection (a) that copyright in a protectable work vests initially in the author or authors of the work. Section 103(a) provides that the subject matter of copyright includes compilations and derivative works, "but protection for a work

employing pre-existing material in which copyright subsists does not extend to any part of the work in which such material has been used unlawfully." Section 204(a) provides that a transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent. As explained more fully in the discussion below, the net effect of these provisions is that (1) the creator of an eligible work is entitled to copyright ownership; (2) the creator of a derivative work prepared with the authority of the owner of the copyright in the underlying work is entitled to ownership of the copyright in those lawful portions of the derivative work that are not simply repetitions of the underlying work, and (3) any transfer of copyright ownership, including ownership of a copyright in a derivative work, must be accomplished through a written instrument of conveyance signed by such owner.

The Circuit Court in this case determined that (1) copyright ownership did not vest in the creator of a derivative work, and derivative authors are the "*presumptive* owners of copyright rights in their contribution" (emphasis added); (2) that the creator of a derivative work may adjust its copyright right so that there is no vesting, and (3) the owner of the copyright in the underlying work may own the copyright in the newly-created portions of the derivative work, without the necessity of a written instrument of conveyance, or note or memorandum of the transfer.

IPLAC does not take a position here as to how this Court should rule in this matter, but instead urges that this Court review, comment on and resolve the questions

of whether the copyright in a derivative work may be owned by the owner of the copyright in the underlying work in the absence of an express written instrument as required by the Copyright Act. IPLAC believes that interpretation of the appropriate sections of the Copyright Act relating to vesting, ownership and transfer are of especial importance in this electronic era. The development of derivative works such as software improvements, movies based on books and myriad variations on this theme make the economic impacts of derivative work ownership severe and important, since that ownership can be measured in millions if not billions of dollars.

ARGUMENT

I. IS THE COPYRIGHT ACT REQUIREMENT OF A WRITTEN TRANSFER OF COPYRIGHT AN ABSOLUTE?

Simply stated, the lower court's decision in this cause raises the question of whether a transfer of copyright ownership must be effected as clearly prescribed in the Copyright Act, or whether notwithstanding such prescription, a transfer may be effected in other ways, such as by determining the intent of the transferor and proposed transferee. The ruling below adopts the latter position. Such a ruling, if not clarified by this Court, could affect interstate commerce in a manner that may have serious economic consequences.

We begin with the statute. 17 U.S.C. Sec. 102(a) provides that:

> Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can

> be perceived, reproduced, or otherwise communicated, either directly or with the aid of machine or device.

Section 103(b) states:

> The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership or subsistence of, any copyright protection in the preexisting material.

Section 201(a) of the Act provides: "Copyright in a work protected under this title vests initially in the author or authors of the work. . . ." Section 204(a) of the Act provides:

> A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of a transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.

Among the respected authorities in the copyright field, in 1 *Nimmer on Copyright* Sec. 3.01, after quoting the definition of a derivative work as set forth in the statute, it is stated:

> It follows then, that any work based in whole, or in substantial part, upon a pre-existing 'underlying' work, if it satisfies the requirements of originality discussed below and is not itself an infringing work, will be separately copyrightable.

As is also stated in 1 *Nimmer on Copyright*, Section 3.04[A], "copyright in a derivative or collective work covers only those elements contained therein that are original with the copyright claimant." (Citations omitted.) Finally, as this Court has stated in *Stewart v. Abend*, 495 U.S. 207, 223 (1990), the "aspects of a derivative work added by the derivative author are that author's property."

In the case presented for review by Petitioners, there was a jury finding that the program called the China RevUp 32 program was a derivative work. APP. C. 15.

Applying a variation of syllogistic logic to the above premises:

1. Copyright ownership vests initially in the creator of an eligible work;

2. Derivative works that contain sufficient originality are eligible works;

3. Copyright ownership vests in one who creates a derivative work with the permission of the owner of an underlying work;

4. A transfer of copyright ownership, whether of an underlying work or a derivative work, is not valid unless an instrument of conveyance is signed by the owner of the rights conveyed.

Thus, *a priori*, in order for the owner of the copyright in a derivative work to be divested of that ownership, there must be an instrument of conveyance signed by that owner.

The ruling below states that:

A. "... the Copyright Act makes authors of derivative works the *presumptive* owners of copy-

right rights in their contribution. . . ." (Emphasis added.)

B. The Copyright Act "also allows parties to adjust those rights by contract."

C. It is proper to consider "the parties' intent" in order to determine the respective copyright rights of the creators, i.e., whether the author of the underlying work is entitled to own the copyright in the derivative work.

The ruling below concludes that the owner of the underlying work is able to own the derivative work, notwithstanding the absence of an instrument of conveyance signed by the author of the derivative work. This conclusion is buttressed by citing 1 *Nimmer on Copyright* Sec. 3.06, at 3-34.26 at 26(1) (2002), which states:

> The right to claim copyright in a non-infringing derivative work arises by operation of law, not through authority from the copyright owner of the underlying work. *Nonetheless, if the pertinent agreement between the parties affirmatively bars the licensee from obtaining copyright protection even in a licensed derivative work, that contractual provision would appear to govern.*

(Emphasis in original.) However, the phrase "affirmatively bars" would seem to indicate that there must be an actual expressed bar to ownership by the creator of the derivative work. Also, the footnote to that quotation reads:

> If the licensee promises not to claim copyright in the derivative work, to do so could give rise at a minimum to an action for breach of contract. See Sec. 10.15[B] *infra*. Moreover, if not claiming

> copyright in the derivative work is a condition to the license, a violation of that condition might void the license altogether, thereby rendering the making of the derivative work itself an act of copyright infringement. See Sections 8.02 and 8.09 *infra*. It would thereupon follow that no copyright could be claimed in the derivative work.

Nimmer states that there must be an affirmative provision barring the licensee from obtaining copyright protection, but even then, it would seem the express requirement of Sec. 204(a) is being ignored.

In other Federal circuits, the effect of most rulings is that in accordance with statutory requirements, once copyright ownership vests, divestiture of that ownership must be by written instrument. The Eleventh Circuit has agreed with this principal in *Arthur Rutenberg Homes, Inc. v. Drew Homes, Inc.*, 29 F.3d 1529, 1530 (see A11 1994). In that case, there was a prior oral agreement that an architectural plan prepared by an independent firm would belong to the builder. The Eleventh Circuit, after examining the intent of the parties regarding ownership of the work, determined that the original owner of the copyright in the drawing was its creator, and the only way the builder would own the copyright was by a writing signed by the creator. Thus, the requirement of the Copyright Act trumped the intent of the parties.

In accordance with Sec. 201(a) of the Copyright Act, ownership in derivative works can come about in many ways. For example, in a case involving the contribution of special effects to a movie, the Ninth Circuit has held that:

> Where a non-employee contributes to a book or movie, as *Effects* did here, the exclusive rights of

> copyright ownership vest in the creator of the contribution, unless there is a written agreement to the contrary. (Citing *Community for Creative Non-Violence v. Reid*, 109 S.Ct. at 2173.) *Effects Associates, Inc. v. Cohen*, 908 F.2d 555 (9th Cir. 1990), *cert. denied*, 498 U.S. 1103, 111 S.Ct. 1003 (1991).

Effects goes on to rule that "Absent an express transfer of ownership, a contributor who is not an employee retains ownership of his copyright." 908 F.2d at 558.

The express written transfer required by the Copyright Act may take several forms, but most of the decisions dealing with it do not depart from the necessity that it be there. The lower court's decision does not require it, and does not alleviate any uncertainty by so doing. The opposite is true; can anyone who enters into an agreement to create a derivative work for another be certain that at some later date, even without an express provision referring to the derivative work copyright (as distinguished from the embodiment of the copyright, such as a copy of a source code, or a book), the grantor of permission will claim that it was the intent of the parties that the grantor own the copyright? And can the grantor own copyright in the derivative work despite the absence of what Prof. Nimmer calls an "express bar," or for that matter anything that might be its equivalent? Would an "express bar" be the equivalent of the statutory requirement that a transfer of ownership must be in writing?

On the other side of this particular coin, logic supports the principle that where two parties agree in a signed written instrument signed by them that one of the parties conveys her ownership in a derivative work to be created by her to the owner of the copyright in the

underlying work, this is sufficient to effect a transfer of ownership. The requirements of the Copyright Act may be met by this sort of arrangement; there is a written instrument of conveyance signed by the owner of the expectant copyright rights under the Act's Sec. 204(a).

But where an underlying agreement does not mention the word "copyright," and does not contain the written signature of the creator of a derivative work (in whom copyright rights vest under Sec. 201(a)), is that writing sufficient to convey the derivative work copyright to the owner of the underlying work? And where an underlying agreement refers to ownership of the physical source code, but not to ownership of the copyright in it, does that satisfy the requirements of Sec. 204(a)? As the Copyright Act specifically provides in Section 202:

> Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. The transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object. . . .

Because the ruling in this case appears to run counter to the explicit requirements of the Copyright Act, as well as the ruling of the Eleventh Circuit in *Arthur Rutenberg Homes, Inc. v. Drew Homes, Inc., supra*, a cloud of uncertainty has been placed in front of those requirements. And that cloud will, unless dissipated by this Court, inflict severe economic consequences on a broad section of U.S. and global Internet Commerce.

II. THIS COURT'S REVIEW IS NEEDED TO CLARIFY THE SCOPE OF RIGHTS FOR PREPARERS OF DERIVATIVE WORKS.

The decision that the requirements of Secs. 201(a) and 204(a) of the Copyright Act may be bypassed, if left unclarified, will profoundly impact copyright law. For example, does the requirement in Sec. 204(a) of the Copyright Act that an instrument of conveyance must be in writing and signed by the owner of the rights conveyed, mean "sometimes" or "without exception?" Can the "intent" of the parties determine whether the vesting rights provided in Sec. 201(a) may be bypassed? Can the grantor of permission to prepare a derivative work claim copyright ownership in the derivative work where the latter work exceeds the limits of the permission? In other words, does preparation of a derivative work that exceeds the limits of permission mean that copyright ownership never vested in its creator, and thus vests in one who is not its creator? Is such a work capable of copyright protection at all?

The resolution of questions such as these is of prime importance because the preparation of derivative works generally has extremely important economic value. Many motion pictures are derivative of the novels, poems or even songs upon which they are based. Many advertising jingles are derivative of the popular songs that preceded them. Some television series are derivative of the novels or motion pictures upon which they are based. Many of the software programs used by industry today are built on top of, and are derivative of, other and more basic software programs. The economic importance of clarification regarding the creation and ownership of derivative works is vital for the guidance of companies large and small in interstate commerce. The spectre of uncertainty raised by the apparent ability to bypass statutory re-

quirements under ill-defined circumstances gives rise to the plea of IPLAC that this Court review this case and provide ultimate clarity and guidance for all creators of derivative works.

CONCLUSION

The Amicus respectfully urges that this Court grant Petitioner's Petition for Certiorari and agree to hear and decide this case.

Respectfully submitted,

E. LEONARD RUBIN
Counsel of Record
SACHNOFF & WEAVER, LTD.
30 South Wacker Drive
29th Floor
Chicago, Illinois 60606
(312) 207-6464

Attorneys for Amicus Curiae

(3)

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02-1213

In the

Supreme Court of the United States

Xu Liu and Xiaomei Yang,

Petitioners,

v.

Price Waterhouse LLP and
Computer Language Research, Inc.,

Respondents.

On Petition for Writ of Certiorari
to the United States Court of Appeals for the Seventh Circuit

Brief of Amici Malla Pollack *et al.* Supporting Petition for Writ of Certiorari

Malla Pollack
Visiting Assoc. Prof. of Law
Cecil C. Humphreys School of Law
University of Memphis
3715 Central Ave.
Memphis, TN 38152-3140
901-678-1393
(fax) 901-678-5210
mpollack@memphis.edu

Counsel of Record

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Interest of the Amici Curiae

Amici Malla Pollack, Ann Bartow, Ralph D. Clifford, Rod Dixon, and Eugene Quinn are law professors specializing in copyright and related subjects. Their only interest in this case is to assist the Court to properly interpret the statutes involved.[1]

Amicus HS&W Systems Consulting, Inc. is a small firm which has made its living as an independent software developer for approximately twenty years, often contracting to produce software for large corporations. HS&W is interested in maintaining its ability to deal fairly with its clients.

Summary of Argument

Certiorari is appropriate because the Seventh Circuit opinion misreads this Court's basic copyright precedent and the governing statutory provisions. Certiorari is appropriate now because the opinion destabilizes a leading sector of the economy. The Seventh Circuit opinion destroys one of the most delicate, complex compromises Congress inserted in the Copyright Act. Furthermore, because the decision is in tension with clear statutory language, interested parties cannot foresee which version of law will govern their disputes. This Court should act promptly to reassure the

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1. No counsel to a party in this case has authored this brief in whole or in part. The cost of preparation and submission of this brief has been paid in full by the listed *amici*. The institutional affiliations of the law professor *amici* are provided for identification purposes only. Law professor *amici* do not purport to represent the positions of their respective institutions.

copyright industries that the law will be settled quickly.

Summary of Facts

Petitioner Yang (a computer-programer) went to China as Price Waterhouse's agent. In that capacity, with the permission of Price Waterhouse, Yang arranged for a group of Chinese programmers to write computer code to speed up a pre-existing program in which Price Waterhouse held copyright. The result was a program containing both old and new elements ("the resulting program"). The Chinese programmers signed no writing what-so-ever giving Price Waterhouse copyright in their original code. Price Waterhouse purported to transfer copyright in the resulting program without permission from the Chinese programmers. To protect their interests, the Chinese programmers arranged for Petitioner Liu to apply for a United States copyright registration for their original code as embodied in the resulting program. The District Court found that Liu had infringed Price Waterhouse's copyright in the original computer program merely by filing the copyright registration application, but that Price Waterhouse had not violated the Chinese programmers' copyright, for the sole reason that they lacked any valid copyright interest. The Seventh Circuit affirmed. *Liu v. Price Waterhouse LLP*, 302 F.3d 749 (7th Cir. 2002).

Argument

In *Liu v. Price Waterhouse LLP*, 302 F.3d 749 (7th Cir. 2002), the Seventh Circuit vested copyright for a computer program in a business, even though that business had neither employed the human writers of the work nor contracted with the human writers of the work. This decision upsets a very delicate policy balance set by Congress in the

Copyright Act. Unfortunately, this opinion also has the power to destabilize an important sector of the United States economy because it undermines settled expectations resting on carefully drafted statutes. Additionally, the opinion endangers the viability of independent-contractor authors by placing their authorship rights under the total control of commissioning entities.

I. The Seventh Circuit Decision Misreads Statutes and Long Standing Precedent of This Court

The Seventh Circuit's decision is wrong. It both misreads the governing statute and overlooks this Court's long settled precedent.

First, the Seventh Circuit is not following the clear statutory text, even though statutory construction must start with the words chosen by Congress. *See, e.g., Dept. of Housing & Urban Dev. v. Rucker*, 535 U.S. 125, ___, 122 S. Ct. 1230, 1233 (2002)(relying on "plain language of the statute."). Copyright may vest initially in a juridical person only if (i) that person is the employer of the human author, or, (ii) if that juridical person (a) has a contract signed by the human author, (b) the work was "specially commissioned," and (c) the work is within one of the categories listed in part (2) of the statutory definition of a work made for hire. 17 U.S.C. § 201 ("ownership of copyright"); *id.* at § 101 (definition of "work made for hire"). Otherwise, to acquire exclusive copyright, the juridical person must contract with the human author. *See* 17 U.S.C. § 204(a) (requiring written instrument signed by the transferring author). The Seventh Circuit does not purport to find that the derivative work at issue meets either of the works made for hire tests. Nor does the Seventh Circuit purport to find that the Chinese programers signed any written instrument transferring their copyright to Price Waterhouse. Yet the Seventh Circuit vests

exclusive rights in Price Waterhouse.

Second, the Seventh Circuit added limitations to those Congress placed in 17 U.S.C. § 103. "The subject matter of copyright as specified by section 102 includes . . . derivative works, but protection for a work employing preexisting material in which copyright subsists does not extend to any part of the work in which such material has been used unlawfully." 17 U.S.C. § 103(a). Permission to use pre-existing material to create a derivative work does not have to be in a signed writing, unlike other portions of Title 17 where written, signed instruments are necessary, *see, e.g.*, 17 U.S.C. § 101 ("in a written instrument signed by them," from part (2) of the definition of "works made for hire"); *id.* at § 204(a)("A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent."). Yang acted in China as the agent of Price Waterhouse. *See Liu*, 302 F.3d at 753. Yang's verbal approval for creation of the derivative computer program is sufficient to allow that derivative work copyright protection under Title 17.[2] Liu, therefore, did not infringe by filing an application for copyright registration of the derivative work on behalf of the Chinese programmers (the human authors). *See Stewart v. Abend*, 495 U.S. 207, 232 (1990) ("Congress simply intended that a derivative work author may not employ a copyrighted work without the author's permission, *although of course he can obtain copyright protection for his own original additions.*")

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2. Even if, *arguendo*, Yang overstepped her instructions, Price Waterhouse would be bound in this detail by her apparent authority. *See* Restatement (2d) Agency § 8.

(emphasis added).

Absent mutual permission, neither Liu nor Price Waterhouse may authorize use of the resulting program, which includes material covered by their respective copyrights. Section 103 not only denies Liu the power to grant anyone permission to use the Price Waterhouse material imbedded in the resulting program, it also denies Price Waterhouse the right to grant anyone permission to use the new authorship added by the Chinese programmers. Section 103(b) protects both authors.[3] The Seventh Circuit only recognized the protections given Price Waterhouse.

The Seventh Circuit's basic statutory error is to assume that copyright in the derivative work existed only at the pleasure of Price Waterhouse. Because Price Waterhouse has the power to limit licenses of the underlying work, the Seventh Circuit assumed that Price Waterhouse needed to affirmatively and explicitly approve copyright protection for the derivative work. *See Liu*, 302 F.3d at 754-55. Title 17, however, does not give the copyright holder of the underlying work quite that much power. Title 17 has no provision that gives Price Waterhouse the ability to destroy the Chinese programmers' copyright in the derivative work once Price Waterhouse agreed to that derivative work's creation. However, Price Waterhouse can totally destroy the market

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3. "(b) The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material." 17 U.S.C. § 103(b).

value of the derivative work by refusing to license the underlying work. This seems more than sufficient bargaining power to enable Price Waterhouse to negotiate a contract for use of the derivative work. Price Waterhouse, nevertheless, wants more; it wants to control the copyright in the derivative work without either hiring someone to author that work or negotiating a contract with the derivative work's human authors. Congress gave human authors more protection in the plain language of the Copyright Act. *Cf.* Jane C. Ginsburg, *The Concept of Authorship in Comparative Copyright Law* 7, Columbia Law School Public Law & Legal Theory Research Paper No. 03-51, *available at* <http://www.ssrn.com> (visited March 17, 2003) ("Much of copyright law in the United States and abroad makes sense only if one recognizes the centrality of the author, the human creator of the work.").

The Seventh Circuit's fundamental legal error is to overlook the teaching of *Wheaton v. Peters*, 33 U.S. 591 (1834). Copyright is not a common law concept which can be manipulated by the courts according to their equitable (mis)beliefs. Copyright in the United States is totally a creature of statute. *See Wheaton*, 33 U.S. at 663 (Copyright "does not exist at common law– it originated, if at all, under the acts of Congress."); *id.* at 662 ("[I]f the right of the complainants can be sustained, it must be sustained under the acts of Congress."). This cases does not merely start with the words of the statute, it ends with the words of the statute.

In sum, the Seventh Circuit's decision is incorrect. While this Court does not sit merely to correct errors, this error is sufficiently important to support immediate review.

II. The Seventh Circuit's Decision Is Sufficiently Important to Justify a Grant of Certiorari

A. The Seventh Circuit's Decision Substantially Undermines the United States' Economy

A healthy market requires firm rules. Therefore, "enhancing [the] predictability and certainty of copyright ownership" was "Congress' paramount goal" when drafting what became the 1976 Copyright Act. *See Community for Creative Non-Violence v. Reid* ("*CCNV*"), 490 U.S. 730, 749 (1989). Who can contract or invest without settled expectations? *See, e.g.* E.S. Browning & Gregory Zuckerman, *War Jitters Send Markets Down; Treasury Yields Hit 44-Year Low*, Wall St. J., March 11, 2003, at A1 ("[L]ingering anxiety about possible military action is paralyzing decision-making at U.S. corporations, postponing important spending moves, and holding back economic growth.").

Copyright rules are the bedrock for a growing section of the United States economy. "In 2001, the copyright industries accounted for more than five percent of the U.S. Gross Domestic Product, growing at twice the rate of the remainder of the U.S. economy. Internationally, the U.S. copyright industries foreign sales and exports led all major industry sectors." James E. Rogan, Under Secretary of Commerce for Intellectual Property & Director of the U.S. Patent & Tmk. Office, Remarks at the USPTO/U.S. Copyright Office Copyright Conference (April 25, 2002), *available at* <http://www.uspto.gov/web/offices/com/speeches /copyrightconf.htm> (visited March 3, 2003).

Furthermore, the losing plaintiffs, the Petitioners, represent an important segment of the population. A growing percentage of the United States work force is outside the once traditional full-time, long-term salaried employee structure.

Such "contingent workers" accounted for approximately 4% of the United States' work force between 1999 and 2001, including 8.6 million independent contractors. Bureau of Labor Statistics, U.S. Dept. of Labor, *Contingent and Alternative Employment Arrangements, February 2001*, at 1, *available at* <http://www.bls.gov/news.release/ conemp. nr0.htm> (visited March 9, 2003).[4] *See also, e.g.*, Susan N. Houseman, *Why Employers Use Flexible Staffing Arrangements: Evidence from an Establishment Survey* 9 (W.E. Upjohn Institute for Employment Research Working Paper No. 01-67; Oct. 2000) (reporting that employers expect to increase use of non-traditional work arrangements), *available at* <http://papers.ssrn.com> (visited March 9, 2003). Independent contractors, furthermore, are a quality resource. They "tend to be older, highly educated persons" often performing "professional specialty jobs." Bureau of Labor Statistics, *supra*, at 5. Independent contractors lack guaranteed salaries, they need to know how to protect the value of their work. The Seventh Circuit decision unexpectedly destroyed the contractual bedrock on which independent contractors build their financial futures.

On the other hand, a business, like Price Waterhouse, can always obtain complete copyright control of any needed work. All the business needs to do is to hire the human author as a bona fide employee. 17 U.S.C. § 101 ("A 'work made for hire' is – (1) a work prepared by an employee within the scope of his or her employment"). If the business chooses not to provide the human author with the security of

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4. Current figures may be much higher. The most recent survey was conducted over two years ago, in February 2001. *See* Census Bureau, Dept. of Commerce, Email to Pollack (March 10, 2003; on file with Pollack).

employment,[5] the business needs to obtain a contract from the human. This case, similarly to *CCNV*, interprets the Copyright Act to "leave[] the door open for hiring parties, who have failed to get a full assignment of copyright rights from independent contractors . . . to unilaterally obtain [exclusive] rights years after the work was completed . . .." *CCNV*, 490 U.S. at 750.

In summary, this case is sufficiently important to justify the Court's current attention.

B. The Seventh Circuit's Decision Changes Delicate Policy Balances Set by Congress

"Strict adherence to the language and structure" of a statute is "particularly appropriate" when the "statute is the result of a series of carefully crafted compromises." *See, e.g., CCNV*, 490 U.S. at 748 n.14 (1989) (citations omitted). *CCNV* explained the complexity, length, and delicacy of the negotiations leading to the 1976 Copyright Act's original work-for-hire provisions. *See CCNV*, 490 U.S. at 737-51.

The extreme delicacy of the balance was thunderously demonstrated when Congress modified the work made for hire definition in the conference committee version of the Intellectual Property and Communications Omnibus Reform Act of 1999, Pub. L. 106-113. Title One (the Satellite Home Viewer Improvement Act of 1999), Section 1011 (Technical

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5. One leading reason businesses choose not to hire individuals is to side-step statutes regulating employee benefits and pension plans. *See, e.g.,* Houseman, *supra*, at 10-11. Only 72.5% of independent contractors have health insurance, compared to 83% of the traditional work force. *See* Bureau of Labor Statistics, *supra*, at 6 & Table 9.

Amendments), subsection e, added "as a sound recording" to the second part of the "work made for hire" definition. The accompanying Conference Report labeled the measure "a technical and clarifying change" which "shall not be deemed to imply that any sound recording or any other work would not otherwise qualify as a work made for hire in the absence of the amendment made by this subsection." H.R. 106-465, *as reprinted in* 154 Cong. Rec. H11796 (Nov. 9, 1999), *as available in* <http://thomas.loc.gov/> (congressional search engine).

A chorus of disapproval prompted a rapid and (remarkably) retrospective repeal. *See* Work Made for Hire and Copyright Corrections Act of 2000, Pub. L. 106-379. In addition to substantive objections, the lack of open process was roundly denounced. The 1999 amendment "caused some to criticize" the responsible congresspersons and staffers "as having indulged in unfair, deceptive, and sneaky behavior." *United States Copyright Office and Sound Recordings as Work[s] Made for Hire: Hearing before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 106th Cong. 9 (May 25, 2000) (statement of Hon. Howard Coble, Subcomm. Chair, R., N.C.), , *available at* < http://commdocs.house.gov/ committees/ judiciary /hju65223>0.htm> (visited March 10, 2003). *See also id.* at 26 (statement of John Conyers, Jr. ranking minority member of subcomm., D. Mich.)("[T]here can be no disagreement that [the 1999 amendment] is controversial and that it was made in a totally-unrelated conference agreement dealing with satellite transmissions . . . There were no hearings, no markups, no consideration of any kind by the Members.").

Perhaps even more unusual than its retrospectivity, the 2000 removal of "sound recordings" also inserted a statutory construction warning in the text of the statute:

> In determining whether any work is eligible to be

considered a work made for hire under paragraph (2), neither the amendment contained in section 1011(d) of the Intellectual Property and Communications Omnibus Reform Act of 1999, as enacted by section 1000(a)(9) of Public Law 106-113, nor the deletion of the words added by that amendment--

> (A) shall be considered or otherwise given any legal significance, or
>
> (B) shall be interpreted to indicate congressional approval or disapproval of, or acquiescence in, any judicial determination, by the courts or the Copyright Office. Paragraph (2) shall be interpreted as if both section 2(a)(1) of the Work Made For Hire and Copyright Corrections Act of 2000 and section 1011(d) of the Intellectual Property and Communications Omnibus Reform Act of 1999, as enacted by section 1000(a)(9) of Public Law 106-113, were never enacted, and without regard to any inaction or awareness by the Congress at any time of any judicial determinations.

17 U.S.C. § 101. Clearly, the balance of the work for hire provisions is exceptionally delicate. Otherwise, Congress would not have considered such warnings necessary.

The destabilizing power of *Liu v. Price Waterhouse* is much greater than that of the 1999 amendment. First, *Liu*'s scope is greater. That amendment impacted only persons involved in creating sound recordings. The Seventh Circuit's opinion impacts all independent contractors who author derivative works of any kind. Second, the legal authority of *Liu* is less clear. Statute is statute -- controlling authority regardless of the attention devoted to it by the enacting legislators. In contrast, a case from one federal appellate court, especially a case in extreme tension with statutory language, is only binding in litigation within that circuit. No

would-be independent-contractor author and no would-be commissioner of an independent-contractor author can be sure of the outcome in another United States jurisdiction. Furthermore, such a person cannot even be sure which circuit's case law will be determinative in a future dispute.

In sum, this destabilization of background rules deserves the Court's current attention.

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Conclusion

For all the reasons discussed above, the Court should grant a writ of certiorari and reverse the Seventh Circuit's decision.

Respectfully Submitted: March 24 2003,

Malla Pollack
Visiting Assoc. Prof. of Law
Cecil C. Humphreys School of Law
University of Memphis
3715 Central Ave.
Memphis, TN 38152-3140
(tel)901-678-1393;(fax) 901-678-5210
mpollack@memphis.edu
Counsel of Record

and the other *amici* listed below:

Ann M. Bartow
Professor of Law
Univ. of South Carolina
School of Law
Columbia, S.C.
ann_bartow@yahoo.com

Ralph D. Clifford
Professor of Law
Southern New England School of Law
N. Dartmouth, Mass.
rclifford@snesl.edu

Rod Dixon
Visiting Professor of Law
Rutgers Univ. Law School – Camden
Camden, N.J.
rod@cyberspaces.org

Eugene Quinn
Visiting Professor of Law
Temple University
James E. Beasley School of Law
Philadelphia, PA
gene@ipwatchdog.com

HS&W Systems Consulting Inc.
3501 Elmont Avenue
Wilmette, IL 60091
jsims@hswconsutling.com
William J. Novello,
firm counsel

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IN THE

Supreme Court of the United States

XU LIU and XIAOMEI YANG,

Petitioners.

—v.—

PRICE WATERHOUSE LLP,
and COMPUTER LANGUAGE RESEARCH, INC.

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF AS *AMICUS CURIAE* OF THE COMMITTEE ON COPYRIGHT AND LITERARY PROPERTY OF THE ASSOCIATION OF THE BAR OF THE CITY OF NEW YORK IN SUPPORT OF THE PETITION

Robert W. Clarida
Counsel of Record
COWAN, LIEBOWITZ
& LATMAN, P.C.
1133 Avenue of the Americas
New York, New York 10036
(212) 790-9200

Jessica R. Friedman
Attorney at Law
757 Third Avenue, Suite 1903
New York, New York 10017
(212) 973-9100

EDWARD J. DAVIS
Chair of the Committee on
Copyright and Literary Property
of The Association of the Bar of
the City of New York
42 West 44th Street
New York, New York 10036
(212) 603-6431

March 24, 2003

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Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law, 1965 Revision Bill, 89th Cong., 1st Sess., Copyright Law: pt. 6, at 67 (H.R. Judiciary Comm. Print 1965) 13

STATEMENT OF INTEREST[1]

The Association of the Bar of the City of New York (the "Association"), formed in 1870, is a voluntary organization of attorneys with more than 22,000 members located in nearly every state and more than forty countries. The Committee on Copyright and Literary Property is one of the standing committees of the Association, made up of both practitioners and scholars, and is actively engaged in monitoring, commenting on and participating in developments in copyright law.

The Association does not have an interest in the outcome of this petition, except to the extent that the outcome affects copyright law and thereby affects Association members and the public generally, especially the creators and users of copyrighted works. Rather, without taking a position on the ultimate outcome of the parties' competing claims, the Association offers the views of a leading organization of copyright attorneys with a broad range of perspectives. Based on its independent analysis, the Association is concerned that the decision below violates basic principles of both copyright law and statutory interpretation. This brief is offered to provide a viewpoint that might not otherwise be presented to the Court.

CONSENT TO FILING OF *AMICUS CURIAE* BRIEF

The Association has obtained written consent to the filing of this brief from the counsel of record for both parties. These consents are being lodged herewith.

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[1] This brief was not authored, in whole or in part, by counsel to a party, and no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the *amicus curiae* or its counsel.

SUMMARY OF ARGUMENT

This Court should grant *certiorari* to vacate and remand the decision of the Seventh Circuit. The decision below unnecessarily upsets the carefully balanced policy determinations Congress established in the Copyright Act of 1976, 17 U.S.C. § 101 *et seq.*, (the "Act"), which vests copyright ownership initially in the author of a work and requires a signed writing for ownership to be transferred. The trial court awarded ownership of a commissioned derivative work to the commissioning party, based on a determination of "the intent of the parties," without regard to the writing requirements of copyright law. The Seventh Circuit's affirmance introduces gratuitous and costly uncertainty into the fundamental issue of copyright ownership by allowing ownership to become a jury question in circumstances which the Act unambiguously places outside the province of the jury as a matter of law.

The decision further creates a novel theory under which derivative works are deemed exempt from the ownership formalities that the Act imposes on all works of authorship. This special treatment for derivative works contradicts the statutory text, the legislative history and the decisions of other Circuits. It threatens many individual authors and small creative entities whom the Act was expressly intended to protect. Software developers would find themselves uniquely and unjustifiably disadvantaged when hired to expand, improve and develop pre-existing works, as would illustrators, translators, web designers, cartographers, editors, screenwriters, and other creators whose livelihoods depend largely or entirely on the creation of derivative works.

If not reversed, the decision below also could effectively nullify most of the Act's provisions regarding "works made for hire" by independent contractors, *see* 17 U.S.C. § 101, depriving such authors of their federally created

rights if they are unfortunate enough to have those rights adjudicated in the Seventh Circuit. Such disparity among the Circuits on the fundamental issue of ownership is inimical to the goal of national uniformity, which underlies the Act's express preemption of state law. 17 U.S.C. § 301.

The result reached by the Court of Appeals does not require such a radical disregard of federal law. *See infra* at III. Copyright law may permit a commissioning party to gain the use of a disputed derivative work under a variety of theories, should the facts allow. The decision below should therefore be vacated and remanded for further proceedings which recognize that copyright ownership for all works, including derivative works, vests *ab initio* in the author, 17 U.S.C. § 201(a), and cannot be transferred without a signed writing, 17 U.S.C. § 204(a).

FACTS

The facts material to this *amicus curiae* submission are not in dispute. Respondent Price Waterhouse owns the copyright in a software program called RevUp32. Sometime before March 1995, respondent decided to improve the software's operating speed and make certain other changes. In March of 1995, Xiaomei Yang, a former employee of respondent, identified a certain Chinese entity, the Sky Company, as a possible outside contractor to undertake the changes and improvements sought by respondent. A letter from respondent to Ms. Yang dated June 7, 1995, which was signed only by Price Waterhouse, not the Sky Company or Ms. Yang, provided that, *inter alia*, Ms. Yang would be paid certain sums contingent upon the degree of improvement made in the operating speed of the software. Respondent subsequently gave Ms. Yang the source code for RevUp32, which she in turn provided to the Sky Company. The Sky Company programmers created a derivative work, the China

RevUp32 program, that incorporated both the original RevUp32 program and material newly authored by the Sky Company programmers. The parties' relationship subsequently deteriorated; respondent distributed the China RevUp32 software despite disagreements with Yang and the Sky Company; Yang's daughter filed for copyright registration on behalf of the programmers; and this litigation ensued. After a ten-day jury trial, Price Waterhouse was adjudicated the owner *ab initio* of the copyright in the China RevUp32 program, notwithstanding express holdings by the trial court that China RevUp32 was not a work made for hire, and that the writing requirement of 17 U.S.C. § 204 had not been satisfied. That decision was affirmed by the Seventh Circuit.

ARGUMENT

I. THE DECISION BELOW IGNORES THE TEXT AND STRUCTURE OF THE COPYRIGHT ACT

A. The Classification and Writing Requirements for Work Made for Hire

1. Under the 1976 Copyright Act, Copyright Vests Initially in the Creator of a Work Unless the Work is a Work Made for Hire

Section 201(a) of the Copyright Act of 1976 provides, "Copyright in a work protected under this title vests initially in the author or authors of the work."[2] The *only* exception to this rule appears in Section 201(b), which provides, "In the case of a work made for hire, the employer or other person for

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[2] In the case of a derivative work, like China RevUp32, the original material added to the existing work by the derivative work's authors is protected. *See infra* at I.C.

whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright."

Thus, under U.S. copyright law, the only way that someone other than the creator of a work can own the copyright in that work from its creation is if the work is a "work made for hire." On the facts as found by the jury, the China RevUp32 program is not, and could not be, a work made for hire. Therefore, Price Waterhouse cannot be its owner *ab initio*.

2. A Work Created by an Independent Contractor Cannot Be a "Work Made for Hire" Unless There is a Written Agreement Signed by Both Parties That So States

If a work is "specially commissioned" from an independent contractor, as the China RevUp32 program was specially commissioned from the Sky Company programmers, the work must meet two requirements before it will be considered a "work made for hire" and the "employer" will own the copyright. 17 U.S.C. § 101.

First, the work must fall into one of nine categories, namely, a contribution to a collective work; part of an audiovisual work; a translation; a supplementary work (*e.g.*, a forward, map, or table); a compilation; an instructional work; a test; test answer material; and, an atlas. 17 U.S.C. § 101(2). If a specially commissioned work does not fall into one of these categories, it cannot be a work made for hire. *See, e.g., Lulirama Limited v. Axcess Broadcast Services, Inc.*, 128 F.3d 872 (5th Cir. 1997) (holding that advertising jingles could not be works made for hire because they were sound recordings, which is not one of the nine categories). Software *per se* is not one of the nine categories. Although certain

kinds of software may fall into one of those categories (for example, software used to operate a Web site may be a contribution to a collective work or part of an audiovisual work), the China RevUp32 program, which merely processes tax information, does not.

Second, for a work prepared on special order or commission to be a work made for hire, the parties must "expressly agree in a written instrument signed by them that the work shall be considered a work made for hire." 17 U.S.C. § 101(2). It could not be more clear that without an agreement signed by both parties, a specially commissioned work cannot be a work made for hire. *See, e.g., Playboy Enters. Inc. v. Dumas*, 53 F.3d 549 (2d Cir. 1995) (magazine illustrations not works made for hire absent signed writing); *Quintanilla v. Texas Telev. Inc.*, 139 F.3d 494 (5th Cir. 1998) (videotape could not be work made for hire absent signed writing). No such agreement existed in this case, nor has any party contended that such an agreement exists.

In cases where the work does not satisfy either statutory condition, *i.e.*, it does not fall into any of the nine categories and there is no signed, written work-for-hire agreement, the courts have refused to find, rightly, that anyone other than the creator owned the copyright. *See, e.g., Aitken, Hazen, Hoffman, Miller, P.C. v. Empire Construction Company,* 542 F. Supp. 252, 257 (D. Neb. 1982) ("[T]he architectural plans in question are not a commissioned work as defined by § 101 because they do not fall within any of the listed categories and because there was no written agreement between the parties that the plans should be considered a work made for hire"); *Meltzer v. Zoller*, 520 F. Supp. 847, 855 (D.N.J. 1981) ("However, plaintiff may not take advantage of the works for hire doctrine of authorship since architectural plans do not fall within the one of the statutorily prescribed categories of work. Nor does there exist the requisite express written agreement between plaintiff and the

architect designating the architectural plans as a work made for hire"); *Sunham Home Fashions, LLC v. Pem-America, Inc.*, No. 02 Civ. 6284 (JFK) 2002 U.S. Dist. LEXIS 24185 (S.D.N.Y. Dec. 17, 2002) (holding that a particular quilt could not be a work for hire because the quilt design did not fall into one of the nine categories, and also because no evidence of a written agreement had been submitted).

Even if the China RevUp32 program could somehow be shoehorned into one of the nine categories, it is undisputed that there was no written agreement signed by Sky Company. By affirming the district court's determination that Price Waterhouse owned the copyright in the China RevUp32 program *ab initio*, including the new original material created by the Sky Company programmers, when it is undisputed that the China RevUp32 program was not a work made for hire, the Seventh Circuit's opinion departs drastically from the unequivocal statutory language and long-standing judicial interpretation.

B. The Writing Requirement for Transfers of Ownership Under § 204

Given that Price Waterhouse could not possibly have owned the copyright in the China RevUp32 Program from its creation, the only way that Price Waterhouse could be held to own the copyright in the China RevUp32 Program would be if the Sky Company programmers transferred their copyright interests to Price Waterhouse. The facts cannot support such a result, because it is undisputed that there is no signed, written transfer of ownership, as the statute requires

Section 204(a) of the Copyright Act provides that a transfer of copyright cannot take place without a written document signed by the transferor: "A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of

the transfer, is *in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.*" 17 U.S.C. § 204(a) (emphasis added).

Such a requirement has been a cornerstone of copyright law for almost 100 years. Section 28 of the 1909 Copyright Act provided that copyright "may be assigned, granted, or mortgaged *by an instrument in writing signed by the proprietor of the copyright.*" (Emphasis added.) *See, e.g., Snook v. Blank*, 92 F. Supp. 518 (D. Mont. 1948) (holding that the decedent had not transferred movie rights in his book to the defendant, because the defendant "ha[d] produced no writing to show her alleged gift," as required).

Congress changed the language in the 1976 Act to add even greater certainty. *See, e.g., Saenger Organization, Inc. v. Durkin*, 864 F. Supp. 246, 250 (D. Mass. 1994) ("Congress expressly revised the Copyright Act in order to require a written transfer of ownership in order to assure predictability and certainty of ownership"); *Nimmer on Copyright*, Section 10.03 ("This requirement of the current Act carries forward the parallel requirement of the 1909 Act, albeit with several differences. ... The current Act's broadening of 'transfers' to include 'exclusive licenses' thus increases the breadth of conveyances subject to the writing requirement.").

Since the 1976 Copyright Act took effect, courts confronting conflicting claims of copyright transfer have uniformly applied the language of Section 204(a) to conclude that lack of a written transfer is fatal to a claim of copyright ownership by a non-author. In *PMC, Inc. v. Saban Entertainment, Inc.*, 45 Cal. App. 4th 579 (Second Appellate District, Division Three, 1996), for example, a California appellate court considering a dispute over one of the most lucrative copyright franchises, Mighty Morphin Power Rangers, held that "the cause of action for breach of contract against Saban must fail because there was no formalized

agreement which satisfied the Copyright Act's requirement of a signed writing."

The only document that was held to govern the copyright interests in this case was the June 7, 1995 so-called "letter agreement." Since the Sky Company programmers never even saw, let alone signed, the June 7, 1995 letter, that document does not meet the requirements of Section 204(a), and Price Waterhouse does not claim that it does. Therefore, no transfer of copyright from the Sky Company programmers to Price Waterhouse can have taken place. Accordingly, Price Waterhouse cannot be an assignee or exclusive licensee of copyright in the China RevUp32 program, and the jury should not have been permitted to find that Price Waterhouse owned it.

C. The Division of Ownership of Derivative Works Under § 103(b)

1. The Copyright Act Expressly Provides that the Owner of an Underlying Work Does Not Own a Derivative Work Even if the Derivative Work Was Unauthorized

The fact that the China RevUp32 program is a derivative work, not a completely original creation, does not exempt it from the writing requirements described above. To the contrary, Section 103(b) provides, "The copyright in a compilation or derivative work extends *only* to the material contributed by the author of such work, as distinguished from the pre-existing material employed in the work, and does not imply any exclusive right in the pre-existing material. The copyright in such work is independent of, *and does not affect or enlarge the scope*, duration, ownership, or subsistence *of*,

any copyright protection in the pre-existing material." (Emphasis added.)[3]

As the leading treatise, *Nimmer on Copyright*, states, "[T]he copyright owner of the underlying work does not as such become the copyright owner of the material added in a collective or derivative work incorporating such underlying work." *Nimmer on Copyright*, Section 3.04, n.4; *MCA, Inc. v. Wilson*, 425 F. Supp. 443, 455 (S.D.N.Y. 1976), *aff'd on other grounds*, 677 F.2d 180 (2d Cir. 1981) (rejecting argument based on common-law copyright that the owner of a musical composition should be considered the owner of sections that were added to the work by a licensee). An author does not own the copyright to a translation of her work, for example, unless the translator agrees, in writing, that it is a work made for hire or that ownership be transferred.

In this case, there is no question that Price Waterhouse owns the underlying RevUp32 program. There is also no question that Price Waterhouse did not "contribute" the new material that resulted in the derivative China RevUp32 program. Thus, under Section 103(b), Price Waterhouse does not own and cannot own that new material or the China RevUp32 program as a whole, as the Seventh Circuit erroneously held.

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[3] Ownership of copyright in a derivative work does not include the right to exploit the derivative work, where doing so would infringe the rights in the underlying work on which the derivative work is based. *Stewart v. Abend*, 495 U.S. 207 (1995)(distribution of Hitchcock film "Rear Window" could be enjoined when filmmaker's contractual right to use underlying short story lapsed).

II. THE DECISION SUBVERTS A "PARAMOUNT" POLICY GOAL OF THE COPYRIGHT ACT

Beyond conflicting with the language and structure of the Copyright Act and well-settled case law, the Seventh Circuit's decision is wholly at odds with the legislative history of, and the policy behind, the 1976 Copyright Act.

As this Court has made clear, Congress's "paramount" goal in enacting the 1976 Copyright Act was to "enhanc[e] predictability and certainty of copyright ownership." *Community for Creative Non-Violence v. Reid,* 490 U.S. 730, 742 (1989) ("*CCNV*"), at 749-50, citing H.R. Rep. No. 94-1476, at 129 (1976). It was to that end that Congress, *inter alia*, carried forward from the 1909 Act the writing requirement for the transfer of copyrights and added the requirement of a writing for commissioned works to be works made for hire. *See CCNV*, 490 U.S. at 749-50; *Effects Assocs., Inc. v. Cohen*, 908 F.2d 555, 557 (9th Cir. 1990). *See also New York Times Co. v. Tasini*, 533 U.S. 483, 495 (2001) ("In the 1976 revision, Congress acted to clarify and improve [the] confused and frequently unfair legal situation with respect to [authors' rights] in contributions").

The principal purpose of the new Section 204 governing transfer of ownership was "to resolve disputes between copyright owners and transferees and to protect copyright holders from persons mistakenly or fraudulently claiming oral licenses or copyright ownership." *Imperial Residential Design, Inc. v. The Palms Dev. Group, Inc.*, 70 F.3d 96, 99 (11th Cir. 1995). By "ensur[ing] that the creator of a work will not give away his copyright inadvertently and forc[ing] a party who wants to use the copyrighted work to negotiate with the creator to determine precisely what rights are being transferred and at what price," Section 204 "enhances predictability and certainty of copyright ownership," consistent with Congress's "paramount goal."

Effects Assocs., 908 F.2d at 557. The Seventh Circuit's decision here frustrates that overriding Congressional goal.

The legislative history of the 1976 Act confirms the "well-established principle[]" of copyright law that "the source of copyright ownership is the *author* of the work." H.R. Rep. No. 94-1476, at 120 (1976) (emphasis added). The Seventh Circuit decision disregards this well-settled principle in the case of a derivative work even though the legislative history further confirms that as long as a "derivative work" meets the criteria for copyrightable subject matter, it is "copyrightable" with respect to "the material added by the later author." H.R. Rep. No. 94-1476, at 57 (1976).[4]

By holding that the parties' intent is paramount, and allowing a jury determination of intent to determine ownership, the Seventh Circuit effectively revived the 1909 Copyright Act. Under the 1909 Act, as under current law, an employer was deemed to be the author and copyright owner of "works made for hire" (17 U.S.C. § 26 (1976 ed.)), but the term "work made for hire" was not defined in the earlier statute. Through judicial interpretation, it came to mean a work created by one person at the "instance and expense of another." *See, e.g., Brattleboro Publ'g Co. v. Winmill Publ'g Corp.*, 369 F.2d 565, 567 (2d Cir. 1966). To determine whether a work had been created at someone else's "instance and expense," courts examined whether "'the motivating factor in producing the work was the employer who induced the creation'" and whether the employer had the

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[4] The only limitation on such protection arises where a "derivative work unlawfully employ[s] preexisting copyrighted material," but the Sky Company was authorized to create its derivative work at the time. *Id.* (noting that the purpose of such limitation is to prevent an infringer from benefiting, through copyright protection, from committing an unlawful act). Even assuming that RevUp32 was unlawfully employed, however, the statute dictates that the copyright in the new matter simply not be protected; it does not authorize a party other than the author to claim ownership.

right to control or supervise the artist's work. *Self-Realization Fellowship Church v. Ananda Church of Self-Realization*, 206 F.3d 1322, at 1326 (9th Cir. 2000) (quoting *Playboy Enters., Inc. v. Dumas*, 53 F.3d 549, 554 (2d Cir. 1995)). That is the inquiry the Seventh Circuit endorsed in this case.

As this Court explained in *CCNV* and as the Act's legislative history illustrates, however, in the 1976 Act, Congress significantly *narrowed* the circumstances under which a work could be owned *ab initio* by a hiring party. The original drafts of the proposed new copyright act entirely excluded commissioned works from the category of works for hire. In 1964, a revision bill expanded the scope of the work-for-hire classification by adding a new clause that commissioned works could be works made for hire "if the parties so agree in writing." S. 3008, H.R. 11947, H.R. 12354, 88th Cong., 2d Sess., § 54 (1964), reprinted in 1964 Revision Bill with Discussions and Comments, 89th Cong., 1st Sess., Copyright Law Revision, pt. 5, at 31 (H.R. Judiciary Comm. Print 1965). The provision generated extensive debate among authors and publishers. *CCNV*, 490 U.S. at 745-46 (citing Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law, 1965 Revision Bill, 89th Cong., 1st Sess., Copyright Law: pt. 6, at 67 (H.R. Judiciary Comm. Print 1965)). The parties finally reached agreement on the provision when, in exchange for concessions from the publishers on other provisions, the authors consented to a provision that only certain categories of commissioned works could be eligible to be works for hire, if the parties also agreed in writing. *CCNV*, 490 U.S. at 746. In 1966, the House Committee on the Judiciary endorsed the compromise. *CCNV*, 490 U.S. at 747 (citing H.R. 2237, 89th Cong., 2d Sess., 114, 116 (1966)). The revision bill became § 101 of the 1976 Act.

In *CCNV*, this Court expressly rejected a party's attempt to import the 1909 "control" test into the work-for-hire analysis under the 1976 Act, cautioning that "importing a test based on a hiring party's right to control, or actual control of, a product would unravel the 'carefully worked out compromise aimed at balancing legitimate interests on both sides.'" *CCNV*, 490 U.S. at 747-48 (citing H.R. 2237, 89th Cong., 2d Sess., at 114 (1966), quoting Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law, 1965 Revision Bill, 89th Cong., 1st Sess., Copyright Law: pt. 6, at 66 (H.R. Judiciary Comm. Print 1965)). This Court cannot allow the Seventh Circuit's equally express rejection of that warning to stand.

The Seventh Circuit's determination that the copyright in the China RevUp32 program vested in Price Waterhouse, even in the absence of any work-for-hire or transfer writing, constitutes precisely the transformation of "a commissioned work into a work by an employee on the basis of the hiring party's right to control, or actual control of, the work" that this Court condemned in *CCNV* as "inconsistent with the language, structure, and legislative history of the work for hire provisions." *CCNV*, 490 U.S. at 750. Unless reversed, the Seventh Circuit's decision will unsettle the copyright ownership expectations of many creators of derivative works, "clearly thwart[ing] Congress' goal of ensuring predictability" and certainty of copyright ownership. *Id.* at 742, 749.

III. THE DECISION BELOW UPSETS BASIC COPYRIGHT PRINCIPLES NEEDLESSLY

The courts below did not have to disregard key requirements of the Copyright Act to give Price Waterhouse the opportunity to prove that it is entitled to use the China RevUp32 program. Under well-settled doctrines, the rights to

use a disputed work may be adjusted as a matter of equity, without disturbing the settled principles of copyright ownership, if the facts so warrant.

A. Implied License

Unlike an exclusive license, which the Copyright Act defines as a "transfer of ownership" subject to the writing requirement of § 204(a), a non-exclusive license can arise orally or from the parties' conduct. 17 U.S.C. § 101; *Nimmer on Copyright*, Section 10.03 [A][7]; *see also I.A.E., Inc. v. Shaver*, 74 F.3d 768 at 775 (7th Cir. 1996). Courts including the Seventh Circuit have consistently held that an implied nonexclusive license is granted when (1) the licensee requests the creation of the work; (2) the licensor creates the work and delivers it to licensee; and (3) the licensor intends that the licensee copy and distribute the work. *Shaver*, 74 F.3d at 776 (citing *Effects Assoc., Inc. v. Cohen*, 908 F.2d 555, 558-59 (9th Cir. 1990)); see also *Kennedy v. Nat'l Juvenile Detention Assn.*, 187 F.3d 690, 694 (7th Cir. 1999), *cert. denied,* 2000 U.S. Lexis 1093. The court will look to the "totality of the parties' conduct" to determine intent. *Nimmer on Copyright*, Section 10.03 [A][7]. Some objective factors that the court in *Effects* looked to in determining intent included a letter agreement between the parties, deposition testimony, the language of the copyright registration certificate, and the amount that the plaintiff received for the work in question. *Effects*, 908 F.2d at 559; *see also Shaver*, 74 F.3d at 776.

In a grant of a non-exclusive license, ownership in the copyright remains with the licensor-creator of the work. *Id.* Granting a non-exclusive license waives the copyright owner's right to sue the licensee for copyright infringement, however, so the license creates an affirmative defense to a claim of copyright infringement. *Shaver*, 74 F.3d 768 at 775 (citing *Effects*, 908 F.2d at 559). *See also Graham v. Night Owl Pub., Inc.*, 144 F.3d 229, 236 (2nd Cir. 1998).

Here, the courts below could have examined whether, by creating the China RevUp32 program and allowing it to be delivered to Price Waterhouse with the expectation of payment, the Sky programmers granted Price Waterhouse an implied non-exclusive license to use the new matter in the China RevUp32 program. If so, Price Waterhouse would be able to use the work and petitioner would be barred from asserting copyright infringement claims against it. Moreover, because the Sky Company programmers' ownership extends only to the material they contributed to the China RevUp32 program, under § 103(b), they would not be able to market the complete derivative work without Price Waterhouse's consent.

B. Misuse or Unclean Hands

The equitable doctrines of unclean hands and copyright misuse might also provide standards by which the courts below, without turning copyright law on its head, could have decided whether Price Waterhouse should be excused for the unauthorized use of the China RevUp32 program. Where the alleged infringer has been directly harmed by the acts of a copyright owner, the general equitable doctrine of unclean hands could provide a basis on which to bar enforcement. *See Nimmer on Copyright,* Section 13.09 and cases cited therein (recognizing unclean hands defense "when the plaintiff's transgression is of serious proportions and relates directly to the subject matter of the infringement action").

The defense of copyright misuse has been raised when a copyright owner allegedly exploits its work in such a way as to restrict competition or obtain some unfair commercial advantage. At least two circuits have recently accepted this defense to render a copyright wholly unenforceable against an infringer, even where the infringer has not been harmed by the alleged misuse. The Fourth Circuit in *Lasercomb*

America, Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990), for example, concluded that the misuse doctrine should bar an infringement action by a software proprietor that had used its license agreement with third parties to limit competition in areas that were outside the scope of the copyright. As in *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942), the defense was held to be available even though the defendants willfully infringed and even though they were not parties to the questionable license agreement.

Citing *Morton Salt,* the Fourth Circuit in *Lasercomb* held that while the use of a copyright in violation of the Sherman Act "probably would give rise to a misuse of copyright defense, the converse is not necessarily true -- a misuse need not be a violation of antitrust law in order to comprise an equitable defense to an infringement action." *Lasercomb,* 911 F.2d at 978. *Lasercomb* thus holds that the proper test for misuse of copyright lies in the policy underlying copyright law itself. The question, then, is not whether a restrictive license provision is "reasonable" in an antitrust sense, but "whether the copyright is being used in a manner violative of the public policy embodied in the grant of copyright." *Id.* at 973.[5]

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[5] In *qad, inc. v. ALN Assocs., Inc.*, 974 F.2d 834 (7th Cir. 1992), the Seventh Circuit applied this standard to reverse an injunction that software developer qad initially obtained against defendant ALN prohibiting the sale of ALN's allegedly infringing program. Upon discovering that qad's program was itself derived from an earlier Hewlett-Packard program which qad had failed to disclose to the Copyright Office or to the court, ALN raised the defense of copyright misuse. Relying on *Morton Salt* and *Lasercomb*, the court vacated the injunction against ALN, finding that qad had wrongly secured an injunction to protect its nominal copyright in a program that it knew it did not create. This "improper extension and overstatement of qad's copyrights is a misuse which this Court should remedy by declaring qad's copyrights unenforceable against ALN." *Id.* at 1266.

The Seventh Circuit could have applied this same analysis to determine whether the Sky Company programmers should be permitted to inhibit respondents' ability to exploit the RevUp32 program with the China RevUp32 enhancements that the Sky Company authored.

C. Beneficial Ownership and Constructive Trust

Where a party is not the legal owner of copyright in a work, but it has a strong equitable argument that it should be the owner, the Copyright Act permits the courts to deem that party a "beneficial owner" of copyright and to direct an appropriate result.

Section 501 of the Act permits either the "legal or beneficial owner of an exclusive right under a copyright" to sue for infringement. As the Southern District of New York explained in *A. Brod, Inc. v. SK&I Co., LLC*, 998 F. Supp. 314, 325 (S.D.N.Y. 1998), the "legal and equitable interest in a copyright may be held separately.... [thus] both the equitable, or 'beneficial,' owner of a copyright and the legal owner have standing to sue for infringement." Thus, as a statutory matter, Price Waterhouse here could have sought protection for rights it might be found to have as a beneficial owner of the copyright at issue, if the facts permitted.

Once beneficial ownership is established, a court may impose a constructive trust on a copyright for the benefit of the beneficial owner, as in *Stone v. Williams*, 970 F.2d 1043, 1052 (2d Cir. 1992), where the illegitimate daughter of country music legend Hank Williams was held to be a beneficial owner of the copyrights in her deceased father's songs. A constructive trust "is an equitable relationship, not a legal relationship," *A. Brod, supra*, and is properly imposed whenever ownership "has been acquired in such circumstances that the holder of the legal title may not in

good conscience retain the beneficial interest." *Republic of Philippines v. Marcos*, 806 F.2d 344, 355 (2d Cir. 1986).

Applying this broad equitable discretion, the courts have recognized beneficial ownership in a variety of circumstances in which plaintiff clearly lacks legal title to the copyright at issue but can make a strong equitable claim for ownership. In *Jacobs v. Transocean Entertainment*, No. 95-55804, 95-56762, 1996 U.S. App. LEXIS 27591 (9th Cir. Oct. 22, 1996), for example, plaintiffs sought a declaration that they were the beneficial owners of copyright in a screenplay for the film "Brainscan," because they had been improperly deprived of an option in the work to which they were entitled. The Ninth Circuit upheld the complaint against a motion to dismiss, finding that plaintiffs had "alleged facts, which, if proven, might afford them enough of an economic interest to sue as legal or beneficial owners of the Brainscan copyright should the trust be imposed and [the legal owner] ordered to transfer title to them." Id. at *6.

In *A. Brod, supra*, a Japanese company, Masudaya, temporarily assigned its copyright in a certain toy design to a U.S. company to permit the assignee to bring a U.S. infringement action on the owner's behalf. When the assignee later refused to assign the copyrights back to Masudaya, as the parties allegedly had agreed, the Japanese company brought an action to vindicate its rights in the work. Under the Copyright Act, the defendant clearly owned the copyright, but it just as clearly had retained it in an inequitable fashion, according to Masudaya's allegations. The court held that even though the alleged promise to reconvey the copyright was oral rather than written, it was enforceable under equitable state law principles despite the Copyright Act's § 204 writing requirement.

The courts below could have properly recognized the Sky Company programmers' legal ownership of the disputed

software and gone on to determine whether Price Waterhouse should be recognized as a beneficial owner. If the facts warranted, title could have been transferred to Price Waterhouse on that basis.

CONCLUSION

The dispute over China RevUp32 could be resolved in several ways. What a court may not do, however, is indulge in the damaging legal fiction created by the courts below that a party other than the author of a work can be deemed the owner of copyright in that work *ab initio*. The Court should therefore grant the petition for *certiorari*, vacate the decision of the Seventh Circuit and remand for further proceedings.

Respectfully submitted,

Robert W. Clarida
Counsel of Record
Cowan, Liebowitz & Latman, P.C.
1133 Ave. of the Americas
New York, NY 10036
(212) 790-9266

Edward J. Davis
Chair of the Committee on Copyright and Literary Property of the Association of the Bar of the City of New York
42 West 44th Street
New York, NY 10036
(212) 603-6431

Jessica R. Friedman
Attorney at Law
757 Third Avenue
Suite 1903
New York, NY 10017
(212) 973-9100

Attorneys for Amicus Curiae

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IN THE

Supreme Court of the United States

XU LIU AND XIAOMEI YANG,

Petitioners,

v.

PRICE WATERHOUSE LLP AND
COMPUTER LANGUAGE RESEARCH, INC.,

Respondents.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Seventh Circuit

BRIEF IN OPPOSITION

LESLIE M. SMITH
KIRKLAND & ELLIS
200 East Randolph Dr.
Chicago, IL 60601

CRAIG A. KNOT
714 Perth Avenue
Flossmoor, IL 60422

CHRISTOPHER LANDAU
Counsel of Record
KIRKLAND & ELLIS
655 Fifteenth St., N.W.
Washington, DC 20005
(202) 879-5000

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RULE 29.6 STATEMENT

Respondent Price Waterhouse LLP, now known as PricewaterhouseCoopers LLP, is a limited liability partnership registered in Delaware. PricewaterhouseCoopers LLP has no corporate parent, and no publicly traded company owns 10% or more of its stock.

Respondent Computer Language Resources, Inc. is now known as Thomson Professional & Regulatory Inc. This entity has the following corporate parents: The Thomson Corporation, Thomson Canada Limited, Thomson U.S. Holdings Inc., Thomson Corporation U.S.A. Inc., ThomCorp No. 4 Inc., ThomCorp No. 5 Inc., THI (U.S.) Inc., Thomson U.S. Inc., The Thomson Corporation Delaware Inc., Thomson Healthcare Inc., and Thomson Financial Inc. The Thomson Corporation, a corporation organized in Ontario, Canada, is a publicly held company that is listed on the Toronto and New York Stock Exchanges. No other public company owns 10% or more of the party's stock.

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INTRODUCTION

This is a straightforward case about the scope of a license to prepare a derivative work. Respondent Price Waterhouse owned the copyright in a computer software program, and licensed some programmers in China to prepare a derivative work based on that program. That license, as found below by a jury, provided that Price Waterhouse would own the copyright in the derivative work. Petitioners do not like that factual finding, but because they know it would be futile to challenge the sufficiency of the evidence, they now contend that the license does not matter, and that they own the copyright in the derivative work as a matter of law *regardless* of the scope of the license. Although petitioners attempt to depict themselves as copyright champions, what they are pursuing here is a radical rollback of the rights of copyright owners, who would be legally unable to authorize the creation of derivative works in which they owned the copyright. That extreme position has never been accepted by any court, which explains why petitioners failed to garner the vote of a single judge below, and cannot allege a circuit split.

Petitioners are thus reduced to arguing that *certiorari* is warranted here on the ground that the decision below "flagrantly contradicts the plain language of the Copyright Act." Pet. 8. But the Act does not say that the owner of an original work cannot contractually authorize the creation of a derivative work in which it owns the copyright. To the contrary, the Act expressly grants the owner of an original work the "exclusive rights" to "prepare derivative works based upon the copyrighted work." 17 U.S.C. § 106(2). Among these "exclusive rights" is the right to place conditions on the preparation of a derivative work, including ownership of the copyright in the derivative work. Indeed, the creation of a derivative work *without* authorization from the owner of the original work would infringe the copyright in the original work.

The only question here, therefore, is whether the Copyright Act vests the authors of derivative works with an *inalienable* right to the copyright in their work. The answer to that question is no. The general rule in our legal system is that persons are free to alienate their statutory rights, and nothing in the Copyright Act suggests anything to the contrary. If potential authors, like the Chinese programmers here, do not want to create derivative works without owning the copyright, then they do not have to accept the terms of a license imposing such a condition. But they cannot *accept* the terms of a license imposing such a condition, and then turn around (after the license is construed against them) and argue that they own the copyright in the derivative work created pursuant to that very license. Nothing in the Copyright Act, in short, allows petitioners to have it both ways: having accepted the license to create the derivative work in the first place, they must abide by the conditions of that license, including the condition that the owners of the original work would own the copyright in the derivative work.

At bottom, petitioners simply refuse to accept the jury's factual finding that the parties here contractually agreed that the copyright in the derivative work would belong to Price Waterhouse rather than the Chinese programmers. Petitioners' attempt to recast this factual issue as a legal issue of great importance fails for the simple reason that potential authors who want to own the copyright in a derivative work do not have to accept a license that would vest such ownership in the owner of the original work. Given that no court has ever accepted petitioners' extreme and untenable position that the Copyright Act overrides such license conditions, and that the leading commentator in this area has flatly rejected that position, it is petitioners who are seeking to upset settled understandings in this area of the law. Accordingly, and for the reasons set forth more fully below, this Court should deny the petition.

COUNTERSTATEMENT OF THE CASE

Respondent Price Waterhouse developed a tax preparation software package known as the Tax Management System ("TMS"). Pet. App. A2. The original RevUp32 program (or "pre-China RevUp32") is a small part of the Windows version of that software. *Id.* The pre-China RevUp32 program allows other parts of the TMS software to gain access to the TMS database. *Id.* It is undisputed that Price Waterhouse owned the copyright to the pre-China RevUp32 program. *Id.*

Petitioner Yang was a computer programmer employed by Price Waterhouse's Tax and Technology Group. *Id.* In March 1995, Price Waterhouse sent Yang to China to seek out programmers who could improve the speed of the pre-China RevUp32 program. *Id.* Yang selected programmers from the Sichuan Sky Company Limited. *Id.*

The license authorizing Yang and the Chinese programmers to work on the project and defining the scope of that authorization was memorialized in a June 7, 1995 letter to Yang from Price Waterhouse's Jerry Niles. Pet. App. A2-3. This letter was "a part of the written assurances [which] were necessary to induce the Chinese programmers to proceed with their work." Pet. App. B3 (internal quotations omitted). The letter set forth the incentive-based compensation that Yang and the Chinese programmers would receive if they reached certain goals, and provided that any enhancement to the pre-China RevUp32 program would become Price Waterhouse's property upon completion of the project:

> The Tax Technology Group will supply the source code for RevUp .... It is clearly understood that the source code is the sole property of Price Waterhouse and Price Waterhouse gives no authority, implied or otherwise, to distribute or copy this source code in any way. Upon

> completion of the project, ALL source code will be given back to Price Waterhouse.

Pet. App. A3. Yang herself confirmed this understanding of the license in a November 1995 e-mail to Price Waterhouse: "According to the agreement, the enhancement in the source code becomes the property of PW upon the completion of the project." DX 3 ¶ 4; *see also id.* ("[T]he terms of my agreement with the Chinese programmers follow the exact terms spelled out in Jerry Nile's [*sic*] letter.").

Using the source code to the pre-China RevUp32 program, the Chinese programmers developed an enhanced version of the program (called "China RevUp32" below). Pet. App. A3-4. Upon completion of the project, however, Yang refused to give Price Waterhouse the source code for the China RevUp32 program unless the company guaranteed her future work on top of the $264,000 the company had agreed to pay under the compensation formula set forth in the license. *Id.* at A4. Price Waterhouse refused. *Id.*

Undeterred, Yang then arranged for the Chinese programmers to sell their alleged copyright in the derivative China RevUp32 program to petitioner Liu (Yang's teenage daughter) for $150. *Id.* (Yang could not register a copyright in her own name, because she had signed employment agreements with Price Waterhouse providing that it would own the rights to any programs on which she worked during the course of her employment. *See* Pet. App. C15-16.). Liu then registered a copyright, and brought this infringement action against Price Waterhouse and respondent Computer Language Research, Inc. ("CLR"), which had purchased most of the assets of Price Waterhouse's Tax Technology Group in late 1995.

After discovery, Price Waterhouse and CLR moved for summary judgment on the ground that the June 7, 1995 license established that Price Waterhouse owned the copyright to the derivative China RevUp32 program. The district court

(Holderman, J., N.D. Ill.) denied the motion, holding that a genuine issue of material fact existed with respect to the scope of the license. Pet. App. B6. Accordingly, the case proceeded to trial with the meaning of the license as the central issue. The jury unanimously rejected petitioners' interpretation of the license and found that "the China RevUp32 program, *including the copyright*, would become the property of Price Waterhouse upon completion of the project." Pet. App. C15 (emphasis added). The district court then entered judgment for Price Waterhouse and CLR on the jury's verdict, Pet. App. C1-2, and denied petitioners' motion for judgment as a matter of law, Pet. App. D.

Petitioners appealed, and the Seventh Circuit unanimously affirmed the judgment. In particular, the court rejected as "flawed" petitioners' argument that the Copyright Act gave the authors of a derivative work an inalienable copyright in that work. Pet. App. A8. Petitioners sought rehearing and rehearing *en banc*, but their petitions were denied without garnering the vote of a single judge. Pet. App. E1. The petition for *certiorari* followed.

REASONS FOR DENYING THE WRIT

THE SEVENTH CIRCUIT CORRECTLY APPLIED SETTLED LAW

The decision below comports with the Copyright Act, this Court's precedents, the decisions of other courts of appeals, and *Nimmer on Copyright*, which petitioners themselves characterize as "[t]he leading and oft-quoted treatise in the field." Pet. 11. Indeed, it is petitioners' position that conflicts with the Copyright Act, this Court's precedents, the decisions of other courts of appeals, and *Nimmer on Copyright*. Accordingly, there is no need for this Court to review the Seventh Circuit's straightforward application of settled law.

A. The Copyright Act Authorizes Copyright Owners To Place Conditions On A License To Prepare A Derivative Work, Including Ownership Of The Copyright In The Derivative Work.

The crux of petitioners' argument is that the Copyright Act precludes copyright owners from placing a condition on the preparation of a derivative work providing that they own the copyright in that work. That position ignores the fundamental fact that derivative works are inherently creatures of license. Licenses are critical with respect to derivative works because Section 106(2) of the Copyright Act provides that the owner of a copyright "has the exclusive rights to do and to authorize ... [the preparation of] derivative works based upon the copyrighted work." 17 U.S.C. § 106(2) Thus, a potential author of a derivative work *must* have the authorization of the copyright owner, and "[i]n fact, this Court has held that a copyright owner has the capacity arbitrarily to refuse to license one who seeks to exploit the work." *Stewart v. Abend*, 495 U.S. 207, 229 (1990). Without a license, the author of a derivative work would infringe the original work. *See id.* at 223 (noting "the axiomatic copyright principle that a person may exploit only such literary material as he either owns or is licensed to use") (internal quotation and citation omitted); *see also* Pet. App. D10 n.1 ("A derivative work author ... is by definition working within the confines of his or her license to create that work and is bound not to infringe the rights of the original work's owner by exceeding the scope of that license.").

Thus where, as here, a copyright in a derivative work is at issue, the "critical question is ... the scope of the license." *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1087-88 (9th Cir. 1989). "A licensee infringes the owner's copyright if its use exceeds the scope of its license." *Id.* at 1087; *accord Gilliam v. ABC, Inc.*, 538 F.2d 14, 20 (2d Cir. 1976) (author of derivative work infringes copyright in the original work if he "exceed[s] the specific purpose for which permission was granted"). And a

"license must be construed in accordance with the purposes underlying federal copyright law. Chief among these purposes is the protection of the author's rights." *S.O.S.*, 886 F.2d at 1088 (citations omitted).

The "author" whose rights are protected by federal copyright law when a work is licensed to another is the author of the original work. Thus, in *Stewart*, this Court ruled in favor of the successor to the original author's rights and against a movie producer who continued to market a derivative work based on the original novel. Because such continued marketing was beyond the scope of the original "grant of rights," 495 U.S. at 213, this Court held that the marketing was "contrary to the axiomatic copyright principle that a person may exploit only such copyrighted literary material as he either owns *or is licensed to use*." *Id.* at 223 (emphasis added; internal quotation and citation omitted).

The Second Circuit in *Gilliam* also protected the rights of the original owner/licensor against a franchisee who violated the conditions of the license. In *Gilliam*, the British comedy group "Monty Python" licensed scripts to the British Broadcasting Corporation ("BBC") for use in the television series "Monty Python's Flying Circus." *Gilliam*, 538 F.2d at 17. The license did not authorize the BBC to edit a program once it had been recorded. *Id.* The BBC then licensed ABC to broadcast the series in the United States, but this license permitted editing of the programs. *Id* at 17-18, 21. Monty Python sued when ABC began broadcasting edited programs, *id.* at 19, and the Second Circuit enjoined further broadcast. "Since the copyright in the underlying script survives intact despite incorporation of that work into a derivative work, one who uses the script, even with the permission of the proprietor of the derivative work, may infringe the underlying copyright." *Id.* at 20. Even "[o]ne who obtains permission to use a copyrighted script in the production of a derivative work, ... may not exceed the specific purpose for which permission was granted." *Id.*

The Ninth Circuit's decision in *S.O.S.* also protected the rights of the original author from a licensee who exceeded the scope of its license. In *S.O.S.*, the plaintiff software firm licensed some of its payroll software to another company, Payday. The license said: "[t]his series of programs is the property of SOS, and PAYDAY is acquiring the right of use, SOS retains all rights of ownership." *S.O.S.*, 886 F.2d at 1083. When Payday began making changes to the program, S.O.S. sued, and the Ninth Circuit ruled in S.O.S.' favor. Observing that protecting the rights of the author of the program being licensed was "chief" among the "purposes underlying federal copyright law," the Ninth Circuit examined the status of the parties (Payday was not a software writer, *id.* at 1088 n.8) and the language of the license to conclude that "neither party expected Payday to be able to gain access to the source code itself, as opposed to putting in its customers' data and receiving output." *Id.* at 1088.

The Seventh Circuit followed these precedents by holding that actions that exceeded the scope of the license to use the original work constituted infringement. Pet. App. A7-10. The court began with the June 7, 1995 license. *See id.* at A8. On appeal, petitioners understandably did not challenge the jury's finding that the license specified that "the China RevUp32 program, *including the copyright,* would become the property of Price Waterhouse upon completion of the project" or that the project as contemplated by the license was complete. Pet. App. C15 (emphasis added). The question, therefore, became whether the Chinese programmers were entitled to claim a copyright in the derivative China RevUp32 program, register that copyright, and sell it to Liu for $150, *notwithstanding* the terms of the license that authorized the derivative work in the first place.

The answer to that question was and is no. Nothing in the Copyright Act purports to preclude parties from agreeing by contract to vest the copyright in a derivative work in the party

granting the license to prepare that work. To the contrary, the "background presumption" in our legal system is that "legal rights generally ... are subject to waiver by voluntary agreement of the parties." *United States v. Mezzanatto*, 513 U.S. 196 (1995). Petitioners thus miss the point by simply insisting that "'[c]opyright in a work protected under this title vests initially in the author or authors of the work.'" Pet. 10 (quoting 17 U.S.C. § 201(a)). The question here is whether parties can agree, as a condition for a license to prepare a derivative work, that the copyright in the derivative work will belong to the owner of the copyright in the original work. Petitioners identify no authority to support their position that the statute prohibits such a license condition.

Indeed, that extreme position is inconsistent with (in petitioners' own words) "[t]he leading and oft-quoted treatise in the field," Pet. 11, *Nimmer on Copyright*. As that treatise explains: "[I]f the pertinent agreement between the parties affirmatively bars the licensee from obtaining copyright protection even in a licensed derivative work, that contractual provision would appear to govern." 1 *Nimmer on Copyright* § 3.06 at 3-34.26 (2002). Indeed, "if not claiming copyright in the derivative work is a condition to the license, a violation of that condition might void the license altogether, thereby rendering the making of the derivative work itself an act of copyright infringement. It would thereupon follow that no copyright could be claimed in the derivative work." *Id.* at 3-34.26(1) n.29 (citation omitted).

Because this case involves the *initial* ownership of the copyright in a derivative work created pursuant to a license, petitioners' reliance on the statutory provision regarding *transfer* of such ownership is misplaced. As the Seventh Circuit recognized, there was never any need for the Chinese programmers to transfer ownership of the copyright in the derivative work to Price Waterhouse, since Price Waterhouse owned that copyright all along by virtue of the license that

authorized the derivative work in the first place. Pet. App. A9. "'While the Copyright Act makes authors of derivative works the presumptive owners of copyright rights in their contributions, it also allows parties to adjust those rights by contract. Here, the jury found that the parties to the [June 7, 1995] letter agreement did just that—agreed that Price Waterhouse would hold the copyright in the derivative work.'" *Id.* (quoting Pet. App. D14).

The decision below, therefore, is simply an application of the principle that the owner of copyright may place conditions on a license to prepare a derivative work, including specifying who will own the copyright in the derivative work. Because the jury found that the license here gave Price Waterhouse ownership of the copyright in the derivative work (a factual finding that petitioners do not purport to challenge), the Seventh Circuit properly affirmed the judgment in respondents' favor.

B. Petitioners' Argument Ignores the Settled Copyright Law Applied by the Seventh Circuit.

At the very heart of petitioners' position is an inherent inconsistency: they embrace the June 7, 1995 license as the authorization necessary to create the derivative work, but reject the condition in that very license that the copyright in the derivative work would belong to Price Waterhouse. This inconsistency was not lost on the district court: "This court finds [petitioners'] argument that the letter agreement was sufficient to authorize the Sky Programmers to prepare the derivative work, even though the Sky Programmers did not sign it, but was not sufficient to limit the Sky Programmers' rights to claim a copyright in the derivative work to be internally inconsistent." Pet. App. D13.

And this inconsistency carries over into the petition, which cites the license as the "authorization for the creation of ... a derivative work," Pet. 4, but simultaneously refuses to acknowledge the corresponding limitations and conditions. The

Copyright Act, however, does not allow petitioners to have it both ways. As licensees, they must abide by the conditions attached to their license and the corresponding principle that "[a] licensee infringes the owner's copyright if its use exceeds the scope of its license." *S.O.S.*, 886 F.2d at 1087 (citing *Gilliam*, 538 F.2d at 20).

Perhaps aware of the inherent inconsistency in their position, petitioners seek to cast doubt on the June 7, 1995 license. *See, e.g.*, Pet. i (characterizing license as "an ambiguous unsigned writing"); *id.* at 7 (same); *id.* at 19-21 (challenging "the Seventh Circuit's interpretation of the June 7, 1995 Letter"). But the jury here found that the June 7 letter was a license that gave Price Waterhouse ownership of the copyright in the derivative work, and that petitioners are bound by that license. Those findings are not clearly erroneous, and petitioners cannot and do not claim otherwise.

At the end of the day, then, petitioners are left with the argument that the Chinese programmers (and then their *alter ego*, Liu) must own the copyright to ChinaRevUp32 because they authored it and 17 U.S.C. § 201(a) inalienably vests title in the author. *See, e.g.*, Pet. 10 ("[I]nitial ownership of the copyright is a foregone conclusion: such ownership vests in the Sky Company programmers as the authors of the work."). Once again, this argument ignores 17 U.S.C. § 106. Any analysis of copyright in derivative works must begin with that provision, which identifies the owner of the original work as the holder of "exclusive rights" to authorize the preparation of "derivative works based upon the copyrighted work." Section 106 qualifies these exclusive rights by stating that they are subject to "sections 107 through 122." Significantly, Section 201 is not among these qualifying sections. If Congress had intended to qualify Section 106(2)'s exclusive right to authorize the preparation of derivative works with the provisions of Section 201, it could have done so. As it is, Section 106(2) gives the

copyright owner exclusive rights over derivative works unqualified by Section 201.

Indeed, the copyright regime advocated by petitioners would render Section 106(2)'s exclusive rights hollow with respect to the commissioning of derivative works. Under petitioners' theory, a copyright owner who wanted to own the copyright in a derivative work could not do anything before the creation of such a work (except hire the author as an employee) to ensure that he would own the derivative copyright. Instead, he would have to hope that the author would execute a written transfer of the copyright *after* completing the derivative work. If the derivative author did not transfer the copyright, the original copyright owner would be out of luck.

Accepting petitioners' position would also lead to the anomalous result that the violation of a durational or media restriction in a license could give rise to an infringement, while the violation of a copyright ownership provision could not. It is well-settled that even relatively minor violations of durational or media conditions in a license (*e.g.*, extending a license period by one day or one week) can lead to an infringement finding. *See, e.g., Gilliam,* 538 F.2d at 20 (noting that "[m]ost of the decisions" involving infringement by exceeding the scope of a license for a derivative work "dealt with the improper extension of the underlying work into media or time, *i.e.*, duration of the license, not covered by the grant of permission to the derivative work proprietor") (citations omitted). But, in petitioners' world, significant violations—ones that go to the very ownership of the work being licensed—could not lead to an infringement finding. That anomaly has no basis in principle or precedent.

Nor is petitioners' position supported by the cases on which they rely in alleging a circuit split. Neither *Arthur Rutenberg Homes, Inc. v. Drew Homes, Inc.*, 29 F.3d 1529 (11th Cir. 1994) nor *Aymes v. Bonelli*, 980 F.2d 857 (2d Cir. 1992), has anything to do with a derivative work or a license. In *Rutenberg*, the Eleventh Circuit simply held that a written

assignment from an independent contractor to a homebuilder was sufficient under 17 U.S.C. § 204(a) to transfer the copyright. *See* 29 F.3d at 1531. And in *Aymes,* the Second Circuit simply applied the multifactor test of *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989), and held that author of a computer program was an independent contractor, rather than an employee, of the defendant. 980 F.2d at 864.

Petitioners' reliance on the Ninth Circuit's decision in *Effects Assocs., Inc. v. Cohen*, 908 F.2d 555 (9th Cir. 1990), is similarly misplaced. Although that case did at least involve a derivative work, it did not involve a license that had anything to say about ownership of the copyright in that work. Indeed, when the parties reached an oral agreement that authorized the plaintiff to prepare the derivative work, "no one said anything about who would own the copyright in the footage." 908 F.2d at 556. As the district court noted, "[t]he cases cited by [petitioners'] counsel all concern situations under which one party indisputably authored and held ownership rights in the work, and the issue was whether that party had transferred those rights to another," Pet. App. D10 (citing, *inter alia*, *Effects*, 908 F.2d at 556-57), whereas "[h]ere, by contrast, the dispute turns upon which party was to initially hold the rights in the derivative work," Pet. App. D10.

Petitioners' separate argument that they did not engage in an unauthorized "use" of the underlying work, Pet. 15-19, is nothing more than a variation on the foregoing arguments. As noted above, petitioners' use of the original work was governed by the June 7, 1995 license. As the Seventh Circuit recognized, petitioners exceeded the scope of that license by asserting and registering a copyright in the derivative work. Pet. App. A8. Petitioners thus voided the license, and rendered "the making of the derivative work itself" and "claiming a copyright in the derivative work" acts of copyright infringement. *Nimmer on Copyright*, at 3-34.26(1) n.29; *see also* Pet. App. D14.

In sum, petitioners' efforts to identify a circuit split fall far short of the mark. The Seventh Circuit merely followed Section 106(2) of the Copyright Act, the principles set forth in *Stewart, Gilliam, S.O.S.*, and *Nimmer on Copyright*.

C. The Decision Below Does Not Implicate Any Important National Issues.

As shown above, the petition is essentially a frontal assault on Section 106(2) of the Copyright Act. As such, it is also an attack on the ability of copyright owners to clarify copyright ownership in the derivative works they commission from independent contractors. Petitioners claim to be in favor of "predictability" and "certainty" with respect to copyright ownership, Pet. 27 (internal quotations and citations omitted), but the effect of their position would be a sea change in the law. Copyright owners who have commissioned non-employees to produce derivative works with license terms relating to ownership, confident that Section 106(2) means what it says, would suddenly find that the law had changed from under them.

What is more, petitioners' post-106(2) world would seriously undermine the production of derivative works in this country. As noted above, under petitioners' theory, copyright owners seeking independent contractors to produce derivative works would no longer be able to secure initial copyright ownership in such works. Instead, they would be at the mercy of those they licensed to prepare the works. That would harm not only copyright owners, but also would-be authors of derivative works, who would find far fewer copyright owners willing to commission such works. That would turn the law upside down. Accordingly, preservation of settled expectations regarding licenses to prepare derivative works pursuant to Section 106(2) hinges on this Court's denial of the petition for *certiorari*.

CONCLUSION

For the foregoing reasons, this Court should deny the petition for writ of *certiorari*.

Respectfully submitted,

LESLIE M. SMITH
KIRKLAND & ELLIS
200 East Randolph Dr.
Chicago, IL 60601

CRAIG A. KNOT
714 Perth Avenue
Flossmoor, IL 60422

CHRISTOPHER LANDAU
Counsel of Record
KIRKLAND & ELLIS
655 Fifteenth Street, N.W.
Washington, DC 20005
(202) 879-5000

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IN THE

Supreme Court of the United States

XU LIU and XIAOMEI YANG,

Petitioners,

v.

PRICE WATERHOUSE LLP and
COMPUTER LANGUAGE RESEARCH, INC.,

Respondents.

On Petition for Writ of Certiorari
to the United States Court of Appeals for the Seventh Circuit

REPLY IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

DEAN A. MONCO
F. WILLIAM MCLAUGHLIN
RICHARD S. PHILLIPS
WOOD, PHILLIPS, KATZ,
CLARK & MORTIMER
500 West Madison Street
Chicago, Illinois 60661
(312) 876-1800

ERIK S. JAFFE
Counsel of Record
ERIK S. JAFFE, P.C.
5101 34th Street, N.W.
Washington, D.C. 20008
(202) 237-8165

Counsel for Petitioners

Dated: June 10, 2003

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

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REASONS FOR GRANTING THE WRIT

The primary question presented by the Petition is whether copyright ownership for a derivative work can be reassigned from the undisputed authors of that work to the owners of the copyright in the underlying work absent a signed writing.

Respondents do not deny the vital national importance of that question both for independent authors of derivative works and for owners of underlying works. They do not deny that derivative works impacted by this question constitute billions of dollars in intellectual property. They do not deny that, because of the ease of forum shopping in connection with copyright matters, the Seventh Circuit's decision will impact economic activity far beyond that circuit's borders. And they do not even *attempt* to deny that the decision below conflicts with the authoritative interpretations used by the Copyright Office to administer the copyright registration system. In short, respondents concede that the issues in this case are precisely the type requiring prompt and clear resolution by this Court in order to provide certainty to an important area of the law and an important sector of the economy.

Instead of disputing the *significance* of the issues in this case, respondents seek to defend the *result* below by mischaracterizing the questions presented, mischaracterizing the position advocated by petitioners, and misapprehending the most basic and settled principles of copyright law. Contrary to respondents' claims, this case is not about the conditions or scope of a license to prepare a derivative work. It is about the *means* by which ownership of a copyright can be altered regardless whether such change is attempted via a license or otherwise. It is about the difference between an infringing "use" of an existing work and copyright ownership for the discrete portion of *new* material added to a derivative work. It is about the false conflict created by the Seventh Circuit between the use rights in § 106 and the ownership rights in §§ 201 and 204. And it is about the legal standards used to *interpret* purported agreements relating to copyright.

Apart from the dubious substance of respondents' arguments, however, respondents do not and cannot deny that they are contrary to the understandings of leading intellectual-property bar organizations, law professors, numerous independent authors, and the U.S. Copyright Office. While such polar disagreement with respondents' position certainly speaks to the lack of merit in that position, it more directly speaks to the nationwide confusion and conflict that will be engendered if the questions presented lack definitive resolution by this Court. This Court will have no difficulty resolving the straightforward merits of this case on plenary review, but at the petition stage what is far more important is simply to recognize the uncertainty and disruption in the copyright system caused by the decision below.

This Court frequently has granted certiorari in copyright cases where a single decision threatened nationwide disruption of the statutory balance and basic default rules created by Congress in the Copyright Act. Pet. 28-29.[1] The threat in this case is of far greater magnitude than that in previous cases and thus requires this Court's attention.

I. THIS CASE RAISES IMPORTANT NATIONAL ISSUES THAT SHOULD BE RESOLVED BY THIS COURT.

It is the clear and unequivocal understanding of copyright lawyers, copyright scholars, independent authors, and the Copyright Office that in order for the copyright in a derivative work to be owned by anyone other than the author there must be a signed writing transferring such ownership.[2] While such

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[1] *See, e.g.*, *New York Times Co.* v. *Tasini*, 533 U.S. 483 (2001); *Community for Creative Non-Violence* v. *Reid*, 490 U.S. 730 (1989) ("*CCNV*"); *cf. Dastar Corp.* v. *Twentieth Century Fox Film Corp.*, No. 02-428, Slip Op. (June 2, 2003) (conflict between Trademark and Copyright Acts).

[2] *See Amicus* Br., Comm. on Copyright and Literary Property, Ass'n of the Bar of the City of New York, at 7; *Amicus* Br., Intellectual Property Law Ass'n of Chicago (IPLAC), at 4; *Amicus* Br., Malla Pollack *et al.*, at 3; Pet. 12-14 (Copyright Office views).

support speaks to the merits of this case, it is more relevant at this stage in demonstrating the widespread *understanding*, right or wrong, of the basic copyright rules.

The decision below disrupts that settled understanding and thwarts Congress' vital goal of promoting predictability and certainty in the copyright field. The confusion that will result is confirmed by the especially well-informed views of attorneys who routinely practice in this area and of authors who create derivative works with expectations that have now been thrown into disarray.[3] Respondents have no answer to the views of *amici* or to the interpretations of the Copyright Office, despite having had over three months to respond to the Petition and over two months to respond to *amici*.[4]

Respondents largely ignore the disruptive consequences of the decision below. They do not deny that it flagrantly circumvents the express limits on work-for-hire, creating the sort of *de facto* work-for-hire doctrine based on "intent" that was rejected by this Court in *CCNV*. Pet. 27 n. 13; ICCA Letter 1. Nor do they deny that the decision below will significantly interfere with the Copyright Office's administration of the copyright registration and certification system. Pet. 29-30. Instead, they falsely accuse *petitioners* of "seeking to upset settled understandings" by preventing underlying owners from acquiring derivative copyright ownership. BIO 2, 14.

It is pure fiction to claim that existing owners have assumed they could rely on *unwritten* and *unsigned* licenses

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[3] *See* Copyright Comm. Br. 2, 7, 14; IPLAC Br. 2, 4, 10-11; Pollack Br. 1-3, 9-11; *see also* Letter to Supreme Court from Independent Computer Consultants Ass'n, Kansas City Chapter (ICCA), June 2, 2003, at 1 (on file with the Court) (decision "leaves the software industry as a whole in an unpredictable state regarding ownership of" copyrightable code).

[4] Respondents waived response to the Petition at the eleventh hour in order to see what *amicus* briefs would be filed. Following a CFR, respondents sought a further extension by claiming to need time to respond to *amici*. After such maneuvers, their utter silence is particularly telling.

purporting shift copyright ownership of derivative works. Rather, the two copyright bar *amicus* briefs, representing the very people who would be advising such owners, confirm petitioners' position that the decision below runs contrary to established expectations. Until now, existing copyright owners understood they could secure copyright ownership in derivative works only with a signed writing.

Because the decision below disrupts expectations far beyond the Seventh Circuit alone, Pet. 29, and impacts a vital sector of the economy, it is imperative for this Court to review whether such disruption is faithful to the Copyright Act.

II. THE DECISION BELOW CREATES CIRCUIT SPLITS ON MULTIPLE EMBEDDED ISSUES.

The Petition, at 21-25, identified several circuit splits on issues essential to the holding of the Seventh Circuit. While no single case on the other side of those splits replicates *all* of the circumstances present in the Seventh Circuit, they each address an issue on which the Seventh Circuit has made a discrete ruling and on which the outcome of the decision below depends. The precedents established by each of the Seventh Circuit's embedded rulings thus create the type of inter-Circuit conflict that warrants this Court's review.

The Petition identified a circuit conflict centered on the Seventh Circuit's holdings regarding the vesting of initial ownership and the character and requirements for a transfer of copyright ownership. Respondents, however, largely ignore the Eleventh Circuit's holding in *Arthur Rutenberg Homes, Inc.* v. *Drew Homes, Inc.*, 29 F.3d 1529, 1530 (CA11 1994), that an unwritten agreement purporting, *ex ante*, to reassign ownership of a copyright was invalid and that initial "ownership vests in the author." *Rutenberg* likewise found that ownership could shift, even as an anticipatory matter, only through a § 204 signed writing transferring ownership. *Id.* at 1531. Those findings are in square conflict with the Seventh

Circuit's erroneous exemption of supposed changes in *initial* ownership from the § 204 signed-writing requirement.

Respondents' observation that *Rutenberg* did not involving a licensed derivative work is a factual difference without significance to the legal split: A license is nothing more than an agreement, and insofar as that agreement impacts exclusive copyright ownership, the substantive rights of the underlying owner have no bearing on the *procedural* rights and protections of the derivative work author.[5]

The Petition, at 22-25, also identified conflicts regarding whether ownership and registration of a derivative copyright constituted an infringing "use" of the underlying work and regarding the proper interpretation of references to the embodiment of a work rather than its copyright. Respondents do not dispute those conflicts but instead substitute the alternative theory that registering the derivative copyright "exceeded the scope" of the license, "thus voided the license," and consequently caused the very *creation* of the derivative work to be an infringing use of the underlying work. BIO 13.

That "voided-license" theory, of course, is no defense of the Seventh Circuit's rather different holding that mere registration, not creation, constituted the infringing use, it begs the question regarding the proper interpretation of the alleged license referring only to ownership of "code," and thus does not reconcile the circuit conflict on the two points.[6] As for

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[5] As for *Aymes* v. *Bonelli*, it is significant not for its *application* of the work-for-hire test, BIO 13, but for its identification of the *consequences* of a work not being "for-hire": The independent contractor author was thus the initial owner of the copyright. 980 F.2d 857, 864 (CA2 1992). And *Effects Associates, Inc.* v. *Cohen* is significant not for the concession of initial ownership, but instead for the statement of controlling law that made that concession inevitable. 908 F.2d 555, 557 (CA9 1990), *cert. denied* 498 U.S. 1103 (1991).

[6] Respondents' new theory actually contradicts the holding of the Seventh Circuit. If correct, it would void the derivative copyright entirely.

the flawed merits of respondents' alternative theory of infringement, those will be discussed below. *See infra*, at 7-9.

III. CONFLICT WITH THE COPYRIGHT ACT, THIS COURT, AND THE COPYRIGHT OFFICE.

It is, and always has been, petitioners' claim that *initial* copyright ownership unqualifiedly vests in the author of a work, but that such author can agree, at any time, to transfer *ultimate* copyright ownership so long as such agreement is memorialized in a signed writing. The purported agreement that Price Waterhouse would own the derivative copyright in this case was a "transfer" of ownership as defined by the Act and was ineffective in the absence of a signed writing.

A. Copyright Ownership Initially Vests in the Author and Shifts Only by Written, Signed Transfer.

Ignoring the statutory directive that *initial* ownership vests in the author, and that all other ownership must be the result of a valid transfer, respondents mischaracterize the first question presented as "whether the Copyright Act vests the authors of derivative works with an *inalienable* right to the copyright in their work." BIO 2 (emphasis in original). The actual question is not whether an author *can* alienate copyright ownership – of course it can – but rather what *means* are required to accomplish that result. Section 204 is unambiguous on this point: Copyright ownership can be alienated *only if memorialized by a signed writing.*[7]

Respondents also wrongly impute to petitioners a claim that underlying copyright owners are "unable to authorize the creation of derivative works in which they owned the copyright." BIO 1; *see also id.* at 5, 6, 11, 12 (similar misstate-

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[7] Respondents merely repeat the Seventh Circuit's claim that the requirements for a *transfer* of ownership do not apply to a change of initial ownership. BIO 9, 10. But even the "alienation" of initial ownership rights constitutes a "transfer of copyright ownership" as defined in the Act and confirmed by the Copyright Office. 7 U.S.C. § 101; Pet. 13-14. Respondents curiously ignore that authoritative guidance.

ments of petitioners' position). That straw-man is not of *petitioners'* making. Underlying owners can obtain derivative copyrights and derivative authors are "free to alienate" their copyright ownership, BIO 2; they need only comply with the procedures required by § 204 for a *transfer* of ownership. And such a written transfer can anticipate the creation of the work. Pet. 14-15. It is only the unwritten, unsigned, and ambiguous "intent of the parties" relied upon by the Seventh Circuit that is incapable of alienating copyright ownership.

B. Derivative Copyright Ownership Was Not a Condition of the License.

Setting up a false conflict between § 106 of the Copyright Act and §§ 201 & 204, respondents argue, at 1, that underlying owners may place conditions on the grant of § 106 rights, "including ownership of the copyright in the derivative work," notwithstanding the procedural limits established by § 204. That argument is deeply flawed.

First, while an underlying owner can, of course, name its price for a license, where such price involves the exchange of exclusive copyright ownership, nothing in § 106 excuses the terms of exchange from the separate requirements of § 204 or permits imposition of otherwise invalid terms. Respondents' suggestion, at 7, that the underlying owner's rights trump the derivative author's rights continues to confuse infringing "use" of the underlying work with ownership of the copyright in the *new* material contributed to the derivative work. *See* Pet. 15-18. Each party *owns* the copyright in their respective contributions to the derivative work but neither party can *use* the combined result without the further consent of the other. Neither party's statutory rights trump the other's because they exist in separate spheres.

Second, it is not inconsistent that the grant of a non-exclusive right to create a derivative work can be oral but the exchange of exclusive copyright ownership must be in a signed writing. That distinction is expressly drawn by the

Copyright Act itself. 7 U.S.C. § 101 ("transfer of copyright ownership" definition); *cf.* 1 Melville Nimmer & David Nimmer, NIMMER ON COPYRIGHT § 3.06, at 3-34.23 (2002) ("NIMMER") (distinguishing exclusive versus non-exclusive rights in derivative work context). Application of that distinction hardly allows the Sky programmers to have it "both ways." BIO 2. The Sky programmers proceeded at the oral direction of Price Waterhouse's employee, Yang, and certainly did not "accept[]" or "embrace," BIO 2, 10, the June 7 letter or any other supposed condition requiring them to give up *copyright* ownership. Indeed, respondents' claim simply begs the question of *how* such acceptance must be established. The very point of a signed-writing requirement is to impose certainty and predictability regarding whether an author has indeed *accepted* an alleged alienation of ownership. Unpredictable jury findings inferring "intent" in "ambiguous" circumstances, App. A8, are no substitute. The issue of intent should never have gone to the jury in the first place.

Third, respondents' suggestion that copyright ownership was a "condition" to the license rather than simply a covenant or term of exchange, ignores the specific requirements for finding such a condition. "Conditions precedent are disfavored and will not be read into a contract unless required by plain, unambiguous language." *Effects Associates*, 908 F.2d at 559 n. 7. Respondents never established, and the courts below never found, that copyright ownership was a condition precedent for the license. And they could not possibly have found such a condition given the concession that the supposed license terms were "ambiguous." App. A8.

Given the impossibility of establishing a condition in this case, respondents' reliance on NIMMER's discussion of the consequences if such a condition were present is misplaced. BIO 9, 13. Indeed, NIMMER recognizes the difficulty of establishing such a condition, § 10.15, at 10-115 to -116, and seems to contemplate an express "agreement" that "affirmatively bars" derivative copyright protection in order to create

such a condition, *id.* § 3.06, at 3-34.26(1). That is fully consistent with petitioners' position that such an agreement relating to ownership would have to comply with § 204's requirement of a signed writing. Absent proof of a "condition," the alleged ownership change would be just an unenforceable non-use term of exchange that would not void the license.[8]

C. Registering Copyright Ownership in a Derivative Work Is Not an Unauthorized "Use."

Respondents silently concede that registering a derivative copyright is not itself a "use" of either the underlying work or the derivative work. Instead of the Seventh Circuit's flawed "registration-as-use" holding, respondents offer a variant of their license "condition" argument, suggesting that registration violated the "scope" of the license, thereby voiding the license and retroactively making the prior *creation* of the derivative work an unauthorized use. BIO 6, 8.

First, just as with the condition argument, the scope-of-license argument begs the question of how one establishes the alleged limitations relating to exclusive copyright ownership. Whether called a condition, a limit on scope, or merely a term of exchange, a purported alienation of copyright ownership can only be established in compliance with § 204.

Second, characterizing an ownership term as going to the "scope" of the license also begs the question of whether ownership and registration constitute "uses" of the underlying work. A license's "scope" is defined by the uses it permits of the underlying work. Derivative copyright ownership is merely a separate, and unenforceable, non-use term of the exchange, no different than a promise to pay royalties. Violation of such a term may be a breach, not an infringement.[9]

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[8] Furthermore, the consequence of violating a condition would be to void the copyright *entirely*, not vest ownership in the underlying author.

[9] The cases cited by respondents, at 7-8, for the supposed priority of the underlying owner's rights all involve infringing *uses* of the underlying

D. The Decision Conflicts with the Copyright Act's Distinction between a Work and Its Copyright.

Respondents simply ignore the federal-law constraints on the construction of the June 7th letter they hold out as the license agreement and continue to rely on a supposed jury finding "that the license specified that 'the China RevUp32 program, *including the copyright*, would become the property of Price Waterhouse upon completion of the project.'" BIO 8 (citing App. C5) (emphasis added by BIO).[10]

But the jury never should have been allowed to weigh in on the construction of the supposed license in the first place. By permitting an ambiguous reference to "code" to be construed as referring to ownership of the copyright in that code, the trial court asked "the jury a question that the statute already answers." *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 229 (1964); *see* 17 U.S.C. § 202; Pet. 20, 24-25. Contract construction is a legal, not a factual, issue, particularly where the Copyright Act establishes the meaning to be attributed to references to the embodiment of a work rather than the copyright in a work.

CONCLUSION

The decision below strikes at the heart of copyright ownership and the means by which authors can be dispossessed of such ownership. It undermines the careful balance of the Copyright Act, the settled expectations of the legal and economic community, and the copyright registration system administered by the Copyright Office. This Court should grant the petition for a writ of certiorari.

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works, not copyright *ownership* by derivative authors. In none of those cases did the underlying author's rights to restrict the use of a combined derivative work override the derivative author's copyright *ownership* regarding the new elements added to the derivative work.

[10] Petitioners repeatedly objected to allowing the jury to opine on such matters of law, notwithstanding respondents' suggestion to the contrary. *Compare* Trial Transcript 1497-1500, 1502 *with* BIO 8.

Respectfully submitted,

ERIK S. JAFFE
Counsel of record
ERIK S. JAFFE, P.C.
5101 34th Street, N.W.
Washington, D.C. 20008
(202) 237-8165

DEAN A. MONCO
F. WILLIAM MCLAUGHLIN
RICHARD S. PHILLIPS
WOOD, PHILLIPS, KATZ,
CLARK & MORTIMER
500 West Madison Street
Chicago, Illinois 60661
(312) 876-2102

Counsel for Petitioners

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